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ABSTRACT

The diversity of independent schools in size, function, and mode of operation has resulted in a considerable variety of accounting principles and practices. This lack of uniformity has tended to make understanding, evaluation, and comparison of independent schools' financial statements a difficult and sometimes impossible task. This manual has been developed as a concerted effort to create a measure of consistency and uniformity--a first attempt to codify basic accounting principles and practices for specific application to independent schools. It is intended as a guide or working document which may be modified and altered through usage. The sections of the manual cover basic principles for uniform accounting and reporting, chart of accounts, illustrative journal entries, uniform financial statements, and basic accounting systems. A glossary of accounting terms is provided. (Author/JF)

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ACCOUNTING FOR INDEPENDENT SCHOOLS

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FOREWORD

THIS book on *Accounting for Independent Schools* was prepared in response to a growing number of requests for guidelines in accounting from both new and established schools. While there are many books on accounting for educational institutions of various kinds, none seemed to meet the specific needs of the majority of NAIS member schools. We hope that this book will be useful to treasurers, school heads, and business officers in the development of sound financial management within the schools and in helping to make clear to their constituencies and the public the financial condition of individual institutions; and we hope, too, that adoption of the procedures recommended will make more possible than is now the case good comparison between schools and better overall statistics on independent schools generally. Recognition of the different needs of small and large schools has been given in the preparation of suggested charts of accounts.

The accounting and consulting firm of Peat, Marwick, Mitchell & Co. was retained to carry out the project. Mr. Burton Sonenstein prepared the early drafts and the final manuscript under the supervision of Harold I. Steinberg. The actual writing was done by Mr. Sonenstein in the NAIS office, thus providing a useful opportunity for the NAIS Business Manager, John P. Downing, who supervised the project for NAIS, to discuss questions and procedures as the project progressed.

A number of schools and individuals rendered invaluable assistance in completing the project. Some 70 schools responded to a questionnaire and request for copies of charts of accounts, auditor's reports, and samples of financial statements and budgets. A list of the cooperating schools appears at the back of this book.

A special committee met for two days in Boston to review the first draft and to offer suggestions and criticisms, and a number of the committee members were called on again to review the final copy. Serving on the committee were the following: C. B. Lueck, Jr., Business Manager, Pembroke Country Day School, Mo.; Carl C. Storey, Business Manager, Princeton Day School, N.J.; Geddes Parsons, Business Manager, St. Margaret's School, Conn.; John F. Smith, Treasurer, Northfield Schools, Mass.; Robert R. Page, Business Manager, Grosse Pointe University School, Mich.; C. Wilson Place, Business Manager, Tilton School, N.H.; Walter N. Grynwald, Business Manager, Kent

School, Conn.; Robert T. Knox, Business Manager, Polytechnic School, Calif.; Carl Janke, Comptroller, Harvard University, Mass.; Melvin D. Sargent, Treasurer, Simmons College, Mass.; and Richard Pratt, Business Manager, Taft School, Conn.

To all these schools and committee members we express our gratitude.

Finally, we are in debt to the American Council on Education for their ready cooperation and encouragement on the project and for their permission to use specific extracts from their own publication entitled *College and University Business Administration*, prepared by a National Committee, copyright 1968 by the American Council on Education.

CARY POTTER
President of NAIS

INTRODUCTION

INDEPENDENT schools are diverse, not only in philosophy and character, but in size, function, and mode of operations as well. For example, included in the membership of the National Association of Independent Schools are schools with less than 100 students and schools with more than 1,000 students; day and boarding schools; military and religious schools; coed, boys, and girls schools; and schools of varying grade levels. One result of this healthy diversity has been a considerable variety of accounting principles and practices. Unfortunately, however, the lack of uniformity has tended to make understanding, evaluation, and comparison of independent schools' financial statements a difficult, and sometimes, an impossible task.

This manual has been developed as a concerted effort to create a measure of consistency and uniformity: a first attempt to codify basic accounting principles and practices for specific application to independent schools. It is intended as a guide, a working document, which will be modified and altered through usage, but one which we hope will narrow the range of basic accounting and reporting practices in a useful and meaningful manner.

Objectives

The development of the manual was undertaken with four basic objectives in mind.

1. To develop uniform accounting and financial reporting procedures which are generally compatible with the financial activities and organizational structures of independent schools. Such procedures incorporate basic accounting principles and practices followed by public primary and secondary institutions, and are, for the most part, consistent with the standard accounting guide for higher education, *College and University Business Administration* (American Council on Education, Revised Edition), except where circumstances peculiar to independent schools indicate the necessity of modification or deviation. This process of codification and definition should provide a framework which will facilitate the use of proper accounting in all independent schools.

2. To enable independent schools to prepare financial statements which are adequately informative and not misleading. The

timely preparation of statements which accurately reflect the financial position of the school and the results of its operations are of the utmost importance for efficient financial administration. In addition, such statements provide the means of effective communication with the general public, and promote understanding and support for the schools' financial needs.

3. To develop guidelines for uniform terminology and account classification with respect to revenue and expenditures. A broader range of understanding and agreement about the use of accounting terms should enable independent schools to make better internal comparisons of the results of operations, as well as better comparisons between schools, and to understand more fully the limitations of such comparisons.

4. To assist school personnel in the discharge of their management and fiscal responsibilities by enabling them to develop comprehensive, relevant accounting data. The timely recording and classifying of financial transactions in a manner that facilitates the preparation of useful statements and reports is a challenging enterprise — one that is as necessary in the independent school environment as it is in the commercial and business world.

General Contents

The manual contains seven major sections:

Introduction
Basic Principles for Uniform Accounting and Reporting
Chart of Accounts
Illustrative Journal Entries
Uniform Financial Statements
Basic Accounting Systems
Glossary

The material defined and applied in these chapters represents a first comprehensive attempt to adapt basic accounting principles for educational institutions to the independent school environments. Like any attempt to devise uniform principles and procedures applicable in a wide variety of circumstances, this manual will appear to some to suggest accounting practices which are too detailed and complex, and to others an unnecessary oversimplification and compromise.

Bearing in mind the guiding objective of the project — to assist *all* independent schools to develop and disclose accounting data in a uniform and useful manner — readers will not let such criticism obscure the sense that the

manual represents an important beginning in this direction. We hope that those who regard the manual as being beyond their needs or abilities will view it as an attempt to upgrade the general level of accounting and reporting, and carefully consider the extent to which their existing practices are really adequate. Correspondingly, we assume that schools whose size and resources permit more detailed and sophisticated accounting systems and reports will continue in this direction, but will also assure themselves that their systems are consistent with the basic principles and structures presented in the volume.

We hope that all schools will respond to the accounting manual as a working or field document, and will attempt to develop and refine its contents to meet changing conditions. Only with the active participation of member schools can a viable body of uniform accounting principles and practices for independent schools be developed to the point where they can be considered generally accepted.

CHAPTER ONE

BASIC PRINCIPLES FOR UNIFORM ACCOUNTING AND REPORTING

ACCOUNTING in independent schools, as in all educational institutions, should seek to accomplish two basic objectives: (1) to fulfill the inherent obligation of financial stewardship and accountability for the funds entrusted to the school; and (2) to disclose fully the results of operations and the financial position of the school.

Actually, the recording and disclosure of financial data are based upon a foundation of basic accounting principles. Such principles already exist for commercial enterprises, governmental units, colleges, universities, etc. They have been published, understood, and as a result, generally accepted.

The purpose of this chapter is to set forth and codify the basic accounting principles for independent schools. These principles are based upon those prescribed for institutions of higher learning in the revised edition of *College and University Business Administration*. Naturally, however, the differences in the characteristics and operating policies of independent schools have resulted in modifications where necessary. Furthermore, in those instances where we have deemed it appropriate, we have offered alternatives.

General

1. DOUBLE-ENTRY BOOKKEEPING

A double-entry system of accounting should be utilized by each school. The system should be adequate to provide for the recording of assets, liabilities, fund balances, revenue and other additions, expenditures, transfers, and other deductions in balanced fund groups. Furthermore, the general ledger should contain accounts for all funds and assets over which the school has control and/or is entitled to disburse.

2. ACCRUAL ACCOUNTING

In the interests of providing adequate financial control and disclosure,

the accounting system should be maintained and financial reports presented on the accrual basis. The objective of the accrual basis is to give recognition to all substantial amounts receivable and payable, income earned, and costs incurred, even though cash may not have been received or disbursed.

Depending on the size and capabilities of the school's accounting organization, there are two ways in which the accounts can be maintained. (1) All revenues and expenditures are *accrued* on a day-to-day basis as part of the normal operation of the accounting system. Revenue and receivables are recorded when earned; expenditures and payables are recorded as these services or materials are received. (2) All transactions, with the possible exception of the issuance of tuition bills, are not recorded until the cash is received or disbursed. Material items are accrued only at the end of the fiscal period.

No matter which accrual accounting method is used, all substantial amounts receivable, payable, prepaid or accrued should be included in the Balance Sheet; and any corresponding revenues or expenditures appropriately reflected in the Statement of Current Funds Revenues, Expenditures, and Transfers, or Statements of Changes in Fund Balances.

Revenue

- Revenue from student tuition and fees should be recognized at the beginning of the respective school year. Advance registration fees applicable to the year should also be recognized as current revenues at this time. Student fees for summer sessions which overlap the end of a fiscal year should be recognized in that fiscal period in which the major portion of instructional expenditures is incurred. (See Expenditures, below, concerning treatment of summer school expenditures.)
- Gifts and bequests should be recognized when received. (See Principle No. 16 concerning pledges.)
- Amounts received or pledged from foundations, agencies, and other grantors which are restricted to specified purposes would not necessarily be recorded as revenue at the time of receipt, but would instead be treated as outlined in Principle No. 6 (Restricted and Unrestricted Funds).
- Income from investments of endowment and similar funds should be recognized as outlined in Principle No. 13.
- All other income should be recognized when it becomes due.

Expenditures

- Expenditures should be charged to the appropriate accounts when the school receives the goods or services. Such expenditures may be represented by invoices or statements for goods or services received, such as supplies, food, and minor equipment; or may represent expenses that accumulate or accrue to some extent automatically with the passage of time, such as salaries and wages. The former group of expenditures is normally classified as "accounts payable"; the latter group as "accrued expenses."

- Faculty salaries should be charged as expenses in the fiscal year in which the instruction is given, even if salary payment is made in the subsequent fiscal year, e.g., in July or August for a school with a June 30th or July 31st year-end.

- Compensation paid to faculty members to teach summer sessions should not be allocated to two different fiscal years, but should be charged to the fiscal year in which the predominant portion of the summer session is taught, and should correspond to the period in which revenue is recorded.

3. Financial Reports

A comprehensive financial report should be prepared for submission annually to the Headmaster and Board of Trustees. In the interest of full and fair disclosure, the annual report should include the following:

- Balance Sheet
- Statement of Current Funds Revenues, Expenditures, and Transfers
- Statements of Changes in Fund Balances.

The *Balance Sheet* is utilized to report the assets, liabilities, and fund balances of the separately balanced fund groups at a given date. The revenues, expenditures, and transfers of the current funds group should be reported in the *Statement of Current Funds Revenues, Expenditures, and Transfers.* The changes in fund balances from one period end to the next should be presented in the *Statements of Changes in Fund Balances.* The Balance Sheet and Statement of Current Funds Revenues, Expenditures, and Transfers should be presented on a comparative basis with the results of the prior year, and be consistent except where otherwise indicated.

For internal use, more detailed reports should be prepared monthly or quarterly to facilitate the exercise of effective financial controls and responses. Periodic comparisons of operating results with budgeted revenues and expenditures are particularly valuable in this regard.

4. CONSOLIDATED REPORTS

The financial statements of any development fund, foundation, summer camp, or similar organization, which is integrally affiliated with, associated with, or controlled by the school, should be consolidated with the financial statements of the school. For example, donor-restricted gifts expendable for current operations, held by a separate foundation, should be included in the current restricted funds group; endowment funds, in the endowment funds group; and unexpended plant funds, in the plant funds group. Changes in the balances of these funds should also be reflected in the statements of changes in funds balances.

Fund Accounting

5. FUND GROUPS

Independent schools, like other educational institutions, have a significant stewardship responsibility for the various monies and other assets entrusted to their care. As an integral part of this responsibility, the accounts should be classified in balanced fund groups on the books of account and in the financial reports. All financial transactions should be recorded and reported by fund groups.

In the accounting and reporting of educational institutions and other nonprofit organizations, a fund is an accounting entity, involving assets, liabilities, revenues, expenditures, transfers, receipts, disbursements, and a balance. A fund is established to carry on specific activities or attain certain objectives in the operation of an institution, either at the discretion of the governing board or in accordance with regulations, restrictions, or limitations imposed by sources outside the institution.

In order to ensure observance of limitations and restrictions placed on use, a separate account must be maintained for the balance of each fund. It will reflect the results of the fund's transactions or operations. Balanced fund groups should be used for reporting purposes to summarize funds subject to similar restrictions or available for like purposes, e.g., current funds or plant funds. Each fund group should be treated as a separately balanced entity.

The transactions of the various fund groups should be kept separate and

not intermingled. Those receipts that are specified by donors, governmental agencies, or other outside sources to be added to funds, other than the current operating funds, should be recorded directly in the accounts of the appropriate fund group. Disbursements of such funds should also be recorded in the accounts of the respective fund groups. All funds unrestricted by donors, or restricted for operating purposes, should be recorded as additions to the current funds group. (See Principle No. 7 with regard to reporting unrestricted gifts.)

The usual fund groups are:

Current Funds
Loan Funds
Endowment and Similar Funds
Annuity and Life Income Funds
Plant Funds
Agency Funds.

For most independent schools, three fund groups are necessary and sufficient: Current Funds, Endowment and Similar Funds, and Plant Funds. Most of the material in this manual is predicated upon the use of these three fund groups; but separate fund groups should be maintained for loan, annuity and life income, and agency funds if they are substantial in amount.

Each fund group should be utilized in accordance with the following definitions and guidelines:

Current Funds

This group should be used to account for any funds which are available for the school's current operations. Current funds are normally subdivided into the following categories:

- *Unrestricted Current Funds.* These are funds that are available for any current purpose. Funds which are designated by the Governing Board for specific current purposes should be included in this category and labeled "Allocated."

  If the school reports the receipt of unrestricted gifts and bequests in the Statement of Changes in Fund Balances — Unrestricted Current Funds — Gifts, the balance not yet transferred to other funds must appear as a separate subdivision of the fund balance. This is the "applied" method of reporting gifts and is further discussed in Principle No. 7.

- *Restricted Current Funds.* These funds are available for current purposes but only in compliance with restrictions specified by outside contributors or grantors.

The current restricted monies should be maintained and reported as a separately balanced fund within the current funds group. If, however, the restricted monies are not substantial, the assets may be reported on a combined basis with unrestricted funds, provided the restricted assets are disclosed parenthetically or otherwise, and the restricted fund balance clearly disclosed.

Loan Funds

This group should be used to account for funds which are loanable to students, faculty, and staff. Distinction should be made among funds available for each purpose. If only the income of the fund may be loaned, the principal should be included in the endowment fund category, and only the income included in the loan funds group.

Loans granted should be considered a receivable of the loan fund group and not recorded as an expenditure. Loan repayments should be applied to the receivable and not recorded as income, unless the loan has been written off previously due to an assumed noncollectability. Thus, receipts of the loan funds group, and the granting and repayment of loans, are not current fund transactions and should not be included in the Statement of Current Funds Revenues, Expenditures, and Transfers.

If it is desirable and informative, disclosure should be made concerning the various types of loan funds, e.g., loan funds refundable to donors under certain conditions, unrestricted current funds transferred by the Governing Board for loan purposes, etc.

Endowment and Similar Funds

This group should be used to account for funds whose principal is not expendable as of the date of reporting, and is invested or is available for investment, with only the investment income available for operating or other purposes. Endowment and similar funds are normally subdivided as follows:

- *Endowment Funds.* Funds available for investment as a result of the donor's stipulation that they be maintained inviolate in perpetuity.
- *Quasi-endowment Funds* (Funds Functioning as Endowment). Funds available for investment as a result of a board or administrative decision, not a donor stipulation. The funds can be returned to an expendable status by subsequent board or administrative decision.

- *Term Endowment Funds.* Funds from outside sources for which the donor has stipulated that the principal is expendable upon the happening of a particular event or the passage of a stated period of time.

The assets of the endowment and similar funds group may be combined unless prohibited by statute or by the terms of the instrument of gift.

The liability side of the Balance Sheet should classify the funds in the categories described above, and may be classified further to distinguish funds with restricted and unrestricted income. Individual accounts should be kept for the principal balance of each individual fund.

Endowment and similar funds should not be advanced for the use of other funds or fund groups, nor should the principal of such funds be hypothecated or the investments pledged for any purpose.

Funds held in trust by others, which are not actually under the control of the school, should not be reported in the financial statements as belonging to the school. Income from such funds should be included in the Statement of Current Funds Revenues, Expenditures, and Transfers. The amount of the funds may be disclosed on the Balance Sheet by a footnote or other reference.

Annuity and Life Income Funds

This group should be used for funds acquired by the school with the concurrent obligation to distribute either a fixed income (annuity) or a variable income (life-income) to the donor or other designated individual during his lifetime.

Plant Funds

This group should be used to account for funds that have been contributed, designated, or borrowed for the acquisition, construction, and rehabilitation of physical facilities for use by the school. Plant funds are normally classified and reported in the following categories:

Funds not yet expended

a. Funds accumulated for additions of plant and equipment

b. Funds accumulated for the retirement of indebtedness on institutional property

c. Funds or reserves for the replacement and renewal of plant assets.

Funds already invested in plant assets

Plant assets should be recorded in the accounts at cost or, in the instance of donated properties, at an appraised or market value as of the date of the gift. Depreciation should not be taken on plant facilities.

Physical properties that are the investment of endowment and similar funds and are not used for institutional purposes should not be included in plant funds, but should be included as assets of the endowment and similar funds group, and should be depreciated.

Temporary advances or loans from current or other funds to the plant funds, made with the authorization of the Governing Board, should be accounted for as receivables of the fund group making the advance, and as liabilities of the plant funds group. If it is determined that such advances will not be repaid, a permanent transfer of funds should be authorized and recorded.

Provisions may be made from current funds revenues to provide for the eventual renewal, replacement, or expansion of the educational plant facilities, provided that cash transfers are made. The allocation of such revenues should be shown in the Statement of Current Funds Revenues, Expenditures, and Transfers as a transfer to plant funds. The amount transferred should be added to the balance of funds for renewals and replacements in the plant funds group, and cash or other liquid assets actually transferred.

Agency Funds

This group should be used to account for funds in the custody of the school to be disbursed only on the instructions and behalf of the person or organization from whom they were received. The receipts and disbursements of agency funds do not constitute current revenue or expenditures of the school and should not be reported in the Statement of Current Funds Revenues, Expenditures, and Transfers. Disclosure of the balance of agency funds should be made on the Balance Sheet, and if desirable, a separate summary of receipts and disbursements may be included in the financial statements.

If agency funds are not substantial, the balance of such funds may be included in accounts payable of the unrestricted current fund.

6. Restricted and Unrestricted Funds

Since each school has an obligation to respect restrictions placed upon the use of certain monies, it should maintain, at all times, the distinction

between funds that are unrestricted and those for which a restricted use has been specified. For example, disclosure should be made of that portion of unrestricted funds allocated by the Governing Board for specific operating purposes, and that portion of endowment funds established by the school itself (quasi-endowment funds) rather than by an outside donor. Furthermore, each fund and all transactions relating thereto should be recorded in the proper fund group and subgroup as determined by the restrictions placed on the fund.

Receipts of cash and other property specifically designated by the donor for a restricted purpose should be reflected directly as additions to the appropriate fund in the Statements of Changes in Fund Balances. In addition, the income earned on the temporary investment of restricted funds, other than endowment and similar funds, should also be reflected as a direct addition to these funds, unless it has been the school's policy to record such income as revenue in the unrestricted current fund.

Transfers of unrestricted current revenues to another fund, e.g., plant or quasi-endowment, by the Governing Board should be reported as a transfer in the Statement of Current Funds Revenues, Expenditures, and Transfers and in the Statements of Changes in Fund Balances. If the funds are restored to the current fund at some later date, the restoration should be reported in the Statements of Changes in Fund Balances.

Allocations of the school's funds to meet the provisions of matching grants and bequests represent commitments of Governing Boards that cannot be reversed, and thus should be identified in the accounts and financial reports.

Restricted current funds should be reported as revenues in the Statement of Current Funds Revenues, Expenditures, and Transfers only to the extent that these funds are expended during the year. Restricted current funds received during the year, whether expended during the year or not, should be reported as additions in the Statement of Changes in Fund Balances — Current Restricted Fund.

7. Reporting Unrestricted Gifts

All unrestricted gifts and bequests should be reported in one statement in the year received. If it is the school's policy to use all unrestricted gifts and bequests for current operations, the total may be reported as gifts in the Statement of Current Funds Revenues, Expenditures, and Transfers.

If the policy is first to report unrestricted gifts and bequests in a "development" or unrestricted gift fund and then to transfer them to other funds, the

receipt and application of monies should be reported in a Statement of Changes in Fund Balances — Unrestricted Current Funds — Gifts. The latter is called the "applied" method. In this method, the initial application must be to the current unrestricted fund in an amount equal to, but not greater than, the excess of current fund expenditures and transfers over revenues. It would be reported as gifts applied. Other applications could be to the plant, loan, or quasi-endowment funds. Transfers from the current unrestricted fund should be for debt service or renewal and replacement purposes only.

Whichever method is used should be used consistently from year to year.

8. Interfund Expenditures, Transfers, and Balances

There should be no expenditures or transfers from one fund for the benefit of another fund without the written approval of the Headmaster and/or Governing Board.

Interfund balances should be temporary in nature, and adequate disclosure of such balances should be made in the financial statements. For reporting purposes, if such interfund balances cannot be eliminated by cash transfers, the money advanced or temporarily loaned should be set forth in the Balance Sheet as an asset of the fund group making the advance and as a liability of the fund group receiving it. When the expectation of repayment does not appear likely, such as in advances from current to plant funds, the amount advanced should be accounted for properly and reported as a permanent transfer rather than a temporary borrowing.

9. Investments

All investments should be recorded and reported at cost. Gifts of securities and other donated assets should be recorded at their market value, if determinable, or at an independently determined appraised value as of the date of the gift. Premiums and discounts, if substantial, should be amortized to income on a straight-line basis to maturity.

The recorded value of investments should not be changed to reflect fluctuations in market prices. However, market values, based on appropriate periodic review of the investments, should be disclosed in the Balance Sheet parenthetically or by means of a footnote.

Gains or losses realized on the disposal of investments should be carried to the principal of the separately invested funds or should be accumulated in an "undistributed realized net gain on investment" account. Such capital gains

and losses should not be treated as current operating revenues or expenditures. They are subject to the same restrictions and limitations on investment, expenditure, and disposition as the funds from which they arose. Since quasi-endowment funds, by their nature, are not restricted by outside donors, the capital gains distributed to them may be transferred to current operations with the appropriate authorization.

Endowment and similar fund assets may be pooled for investment purposes, if permitted by statute and by the terms of the instrument of gift. If they are so pooled, a control account should be maintained to reflect the recorded values of each class of investments in the pool, e.g., bonds, preferred stocks, and common stocks.

- The operation of an investment pool necessitates adopting procedures that will provide for the equitable distribution of income and the assignment of realized capital appreciation to all funds participating in the pool. The market-value method is preferable to the book-value method of assigning share values to incoming funds.
- In the event that other funds are admitted to the investment pool for investment purposes, special attention must be given to the accounting arrangements for admittance to and withdrawal from the pool to preclude the new funds' receiving investment income and realized or unrealized net gains properly attributable to the previously invested funds.
- Pooled investment income should be distributed to only the income accounts of the participating funds. Income should not be distributed to the gain or loss accounts; if this is done, the various funds shares in the aggregate investment income of the pool will be diluted.

In order to maintain unimpaired the principal of the funds, real and other properties held for investment purposes should be depreciated and an equivalent amount of cash or other liquid assets set aside for eventual replacement.

Revenues and Expenditures

10. Classification of Current Revenue and Expenditures

Revenue of current funds should be classified and reported by major function and further by source. Major functions include: educational and general and student aid. Sources include: student tuition and fees, gifts, endowment income, revenues from student services, and other sources. Summer school and other program revenues should be separately accumulated and reported.

Expenditures of current funds should be classified by major function and sub-function, i.e., instruction, student services, operation and maintenance of physical plant, and general administration. Within the functions, expenditures may be further classified by activity, i.e., academic departments, specific administrative departments, etc.; and by object, i.e., what is received for the expenditure. For example, within the classification of general administration, expenditures for the activity of the alumni office could be classified in accounts for salaries, printing, postage, travel, minor equipment, etc. Those types of object expenditures which are not practicable to distribute directly or allocate to specific activities, should be reported in total under the general institutional classification.

11. Revenue from Students

Revenue from students should include items assessed (with the exception of capital assessments which would be added to the plant fund), whether or not collected. It should specifically include tuition and fees assessed but not collected because of scholarships, fee waivers, or other forms of tuition exemptions. Uncollectible tuition and fees should be accounted for as an expenditure.

Many independent schools report student aid as a reduction in gross tuition revenue. This practice is acceptable providing adequate disclosure of the amount of the aid is made in the Statement of Current Funds Revenues, Expenditures, and Transfers. Reporting a netted figure, e.g., "student fees net of scholarships," is considered adequate disclosure only if the amount of student aid, including gifts and other revenue restricted for student aid, is disclosed.

A recommended procedure is the reporting of student aid as a separate category of expenditure, and disclosure of such aid, e.g., gifts, endowment income, and other sources of income restricted for student aid. This method of presentation (see Chapter Four, Uniform Financial Statements) is preferable, because it clearly indicates the total expenditures for student aid and the extent to which such expenditures have been met by restricted gifts, endowment income, etc.

Most independent boarding schools charge a single combined fee for tuition, room, and board, and report that fee under the heading "tuition" or "student fees." This practice is acceptable for accounting and reporting purposes. If, however, the school publishes a breakdown of its fees for tuition, room and board, and for other services, such as health, athletics, breakage,

extracurricular expenses, etc., the total revenue amounts should be determined and separately reported.

Revenues should always be reported in full, and not net of related expenditures, so as to reflect clearly the magnitude of such services.

12. Student Support Services

To the extent that it is practicable to do so, schools should record and report in full the revenue and expenditures of student services. The practice of maintaining and reporting separate revenue and expenditure accounts for student support services permits an accurate determination of the financial magnitude of such services, as well as disclosure of the results of operations. For instance, maintenance of separate accounts for each student support service provides considerable financial control in the form of "budget vs. actual" or "year to year" comparisons. It also permits the school to determine the extent to which student tuition and fee revenue has been required to support such services, and by deduction, to determine what contribution student tuition and fees actually make to the educational and general expenditures of the school.

In those instances where a single student fee is charged and recorded, an attempt should still be made to maintain separate expenditure accounts for each discrete service. The direct expenditures for room, board or food services, snack bar, health services, student store, and other student support services should be accumulated in separate accounts. As far as possible, indirect expenditures, such as utilities, maintenance, insurance, and other expenses from which these services derive a benefit, should be allocated on an equitable basis.

In all instances, the expenditures for student support services should be reported in full, and not netted against the applicable revenue.

The policy of allocation of indirect expenditures should be clearly disclosed in the financial statements.

13. Endowment Income

Earnings from endowment and similar funds investments should be reported as follows:

- Unrestricted income from endowment investments should be reported in the year collected in the Statement of Current Funds Revenues, Expenditures, and Transfers.
- Earnings from the investments of endowment funds whose income

is restricted to specific purposes should be reported as additions to the balances of the appropriate fund groups or subgroups via the Statements of Changes in Fund Balances. If such earnings are restricted to current operating purposes, the amounts reported as current funds revenues should be only for an amount equivalent to the amounts expended during the fiscal period. The unexpended portion would remain in current restricted fund balances at the year-end.

If the investments of endowment and similar funds are pooled, all income earned therefrom should be credited first to an undistributed pooled endowment and similar funds income account. Distribution from this account should be made no less than annually. This income should be distributed to the income accounts of the funds participating in the investment pool on the basis of the number of shares in the pool held by each fund, adjusted for shares held for less than a year.

Income stabilization reserves occasionally are established for the purpose of ensuring the availability of relatively fixed amounts of endowment and similar funds income from year to year. The method of establishing such reserves and of providing additions to them will also influence the distribution of income. Such reserves may be provided from the pooled income account prior to distribution or as a transfer from current unrestricted funds after distribution. The level of stabilization reserves should be adequate to meet short-term fluctuations in investment income, but should not be excessively large in amount.

14. Depreciation

In accordance with generally accepted accounting practices for educational institutions, no depreciation should be taken on the school plant. However, the school may elect to set aside current funds revenues for debt service or for the renewal, replacement, acquisition, or construction of educational plant facilities. Such allocations should be reported in the Statement of Current Funds Revenues, Expenditures, and Transfers as transfers to plant funds. These replacement reserves must be represented by cash or securities in the unexpended funds section of plant funds.

Properties held for investment purposes only should be depreciated.

15. Contributed Services and Equipment

Independent schools conducted by religious organizations or orders often

employ faculty and staff who are members of affiliated organizations and who contribute their services to the school for little or no compensation. Reporting the estimated value of these contributed services is essential in order to facilitate comparison of financial operations with other schools, and to enable the school to forecast the financial impact of utilizing an increasing proportion of lay teachers and administrators. Accordingly, the estimated value of contributed services must be determined, maintained in the regular operating accounts, and reported as a separate classification in the financial statements.

The estimated value of contributed services can be determined by reference to compensation paid to persons performing equivalent functions in the school or similar institutions. Comparative wage and salary data are also available from such organizations as the National Association of Independent Schools, the U.S. Office of Education, and the National Education Association.

The estimated value of contributed services should be reported and separately identified as educational and general revenue (estimated value of contributed services) in the Statement of Current Funds Revenues, Expenditures, and Transfers. These amounts should be reduced by the amount of payments for the living or personal expenses of these individuals which would not otherwise be an expense of the school.

The estimated value of contributed services should also be charged as expenditures to those functions and activities for which the services are performed.

If the school makes cash payments to Religious employees and the payments are subsequently "contributed" to the school, any differential between such payments and normal compensation for such services should also be reported as contributed services, in addition to the amount of the payment itself.

Gifts of equipment should be recorded as additions to the plant fund at appraised values.

16. Pledges

Pledges, including subscription notes and estate notes, are not ordinarily recorded in the accounts or financial reports of educational institutions. Pledges, however, may be recorded as receivables on the Balance Sheet to the extent that they can be fairly considered a financial resource available to the school.

In considering whether a pledge can be deemed an available resource and

therefore be reflected in its financial statements, the school should bear in mind the following basic factors:

- The pledge must be collectible, legally and practicably.
- The pledge must be in writing, with a definite amount and a date or dates of payment specified.
- Direct confirmation of the existence and amount of the pledge must be possible.
- A provision for uncollectible pledges should be established.

Financial Administration

17. AUDIT AND INTERNAL CONTROL

Provision should be made in the overall accounting system for audit and internal control. Independent audits should be performed annually by Certified Public Accountants in accordance with generally accepted auditing standards. The audit should be sufficient in scope to enable the auditor to issue an unqualified opinion as to the school's financial position and the results of operations.

A sound system of internal control involves a plan of organization and the methods and procedures which a school adopts to safeguard its assets, to check the accuracy and reliability of its accounting data, to promote operational efficiency, and to encourage adherence to prescribed policies. A comprehensive system of internal control should contain the following fundamental requirements:

- A clear-cut organizational plan which provides for definite placement of responsibility and for specific lines of responsibility
- Division of duties, wherever practicable, between authorization and record-keeping, so that the activities of one employee act as a check on those of another
- Use of forms, documents, and procedures which facilitate control and provide for proper approvals
- Provision for auditing for compliance with policies and procedures, particularly those relating to transactions reflected in the books and reports based on such data.

18. Budgets

Budgets covering all operations of the school should be prepared and adopted in each fiscal year. The annual operating budget should cover all current fund revenues and expenditures, and should be adopted well in advance of the fiscal period. The budget should be used in conjunction with comparative Statements of Revenues, Expenditures, and Transfers periodically developed from the accounts to provide a useful tool of evaluation and control during the fiscal year.

Capital budgets should be developed for all capital projects.

19. Long-range Planning

As far as possible, the school should develop a long-range academic and financial plan, encompassing the policies and programs planned for three to ten years in the future. The planning process should be carried on with the participation and cooperation of trustees, administrative and academic officers, and other appropriate individuals. Long-range planning should be an ongoing, continuous process reflecting changes in the environment and in the scope and content of the school's activities. The plan should be reevaluated and updated annually as a normal management function.

The financial plan should include estimates of revenues and expenditures in detail for earlier years and in general for later years. The financial implications of projected operating policies and environmental conditions, including the costs of staffing and operating new programs and capital improvements, increases in enrollment, and general increases in faculty salaries and other price levels, should be identified in the plan. In addition, forecasts should be made of the level of future sources of revenue to meet such expenditures.

20. Comparative Operating Ratios

One of the most effective tools for evaluating and controlling the financial performance of a school is the development of meaningful comparative operating ratios. It is recommended that revenue and expenditures be accumulated and distributed in the accounts in a manner which facilitates the development of such ratios on a regular basis. Such ratios may be used for historical or inter-school comparisons and evaluations.

Examples of commonly used operating ratios are:

- Costs per student — for academic and student support services

- Costs per course per student taught — for instructional expenses
- Cost per teaching hour — for instructional expenses
- Cost per square foot — for construction and maintenance
- Costs per employee — for staff benefits
- Costs per meal served.

To the extent that the accounts accurately reflect the true costs, i.e., both direct and indirect, of student support services, meaningful comparisons can be made with the costs of similar institutions and with the costs of obtaining the same services from outside sources.

Another common type of operating ratio is the simple percentage relationship of certain types of revenue or expenditures to total revenues or expenditures, e.g., faculty salaries as a percentage of total expenditures. Such relationships reflect the financial emphasis that the school places on one area or another, and, once determined as a matter of conscious policy, are quite effective for long-range fiscal planning.

Comparative operating ratios are significant and useful only if they are valid — i.e., the activities comprise similar elements from year to year and from school to school. If schools include different costs in similar categories, or are operating under different environmental conditions, comparisons become more harmful than useful. Any attempt to develop comparative operating figures and ratios, therefore, should be based on a clear and concise understanding of the basis for such comparisons. Comparing apples and oranges is hardly rewarding.

CHAPTER TWO

CHART OF ACCOUNTS

THE chart of accounts is the system by which financial data are classified and accumulated for meaningful financial reporting. This chapter contains the structure of a chart of accounts for independent schools, an explanation of the structure, and descriptions of the accounts contained in the chart.

It should be recognized that the primary consideration for an accounting system is the disclosure of financial information for purposes of control and comparison, and that the chart of accounts is only a means of achieving that disclosure. Furthermore, for comparative purposes, the definitions and descriptions of accounts are more important than the numbers assigned to those accounts. Schools which have a chart of accounts that can produce financial statements consistent with the recommended accounting principles should certainly retain their existing charts.

The structure and numbering scheme included herein can be regarded as an appropriate way for a school to develop financial data within the recommended framework of the basic accounting principles. However, within that structure and numbering scheme, each school should determine the precise level of detail necessary for its own financial reporting and control requirements. Subsidiary ledgers may be used to classify detail accounts with respect to cash, student accounts receivable, payroll, investments, endowment, and similar funds, etc.

A more sophisticated chart of accounts suitable for use in larger and more complex schools is outlined in the Appendix, illustrating the use of a multi-digit code structure. This chart of accounts provides for the primary distribution and accumulation of all expenditures by functional departments and activities, and secondarily by types or objects of expenditure.

Key to the Chart of Accounts

The chart of accounts is structured to provide three balanced fund groups: current funds, plant funds, and endowment and similar funds. A

three-digit code is used for all balance sheet accounts and revenue accounts. A four-digit code is used for all expenditures.

Balance Sheet Accounts (100-899)

The first digit of the three-digit code for balance sheet accounts indicates the fund group or subgroup and whether the account is an asset (odd numbers) or a liability or fund balance account (even numbers).

Fund group	*Fund subgroup*	*Assets*	*Liabilities and fund balances*
Current	Unrestricted	100-199	200-299
Current	Restricted	300-399	400-499
Plant	Unexpended	500-549	600-649
Plant	Investment in plant	550-599	650-699
Endowment and similar		700-799	800-899

Revenue Accounts (900-999)

All revenue accounts begin with the digit 9. The second digit indicates the type of revenue and the third digit specifies the exact account.

Expenditure and Transfer Accounts (1000-9999)

The first digit indicates the broad primary classification of expenditures or transfers:

1xxx = Instruction.
2xxx = Student Support Services.
3xxx = Student Activities.
4xxx = Summer School and Other Programs.
5xxx = Operation and Maintenance of Physical Plant.
6xxx = General Administration.
7xxx = General Institutional.
8xxx = Student Aid or Transfers.
9xxx

The second digit indicates a secondary level of classification, e.g., the kind of student support service or student activity. The third and fourth digits are available to specify the exact account within the primary and secondary classification.

Chart of Accounts — Structure

CURRENT FUNDS — UNRESTRICTED

Assets

Account No.	DESCRIPTION
100- 109	Cash — detail as needed; for example:
100	Cash — general
101	Cash — payroll
102	Petty cash fund
110- 119	Investments — short term
120- 129	Accounts and notes receivable — detail as needed; for example:
120	Accounts receivable — students
121	Accounts receivable — faculty and staff
122	Notes receivable
129	Allowance for doubtful accounts (credit balance)
130- 139	Inventories
140- 149	Prepaid expenses and deferred charges
150- 189	Other assets
190- 199	Due from (to) other funds — detail as needed; for example:
190	Due from (to) current restricted funds
191	Due from (to) plant funds
192	Due from (to) endowment and similar funds

Liabilities and Fund Balances

200- 209	Notes payable
210- 219	Accounts payable and accrued expenses — detail as needed; for example:
210	Trade accounts payable
211	Taxes payable (FICA, unemployment compensation, etc.)
212	Employees' taxes withheld (Federal income tax, state taxes, etc.)

CURRENT FUNDS — UNRESTRICTED, *Continued*

Liabilities and Fund Balances

Account No.	DESCRIPTION, *Continued*
217	Accrued salaries and wages
220- 229	Deposits and advance payments
230- 239	Agency funds — detail as needed; for example:
230	Student allowances
231	Student charities
232	Student organizations
250- 259	Fund balances — allocated — detail as needed; for example:
250	Allocated for computer survey
251	Allocated for faculty development
290	Fund balance — gifts
299	Fund balance — unallocated

CURRENT FUNDS — RESTRICTED

Assets

300- 309	Cash
310- 319	Investments
320- 329	Accounts receivable
390- 399	Due from (to) other funds
410- 419	Accounts payable
450- 489	Fund balances — detail as needed; for example:
450	Fund for scholarships — gifts
451	Fund for scholarships — endowment income
452	Fund for faculty summer study
453	Fund for teaching materials
490	Provision for endowment income stabilization
491	Undistributed pooled endowment income

PLANT FUNDS

Assets

	UNEXPENDED:
500- 509	Cash
510- 519	Investments
520- 529	Due from (to) other funds — detail as needed
530- 539	Construction in progress (for temporary use during the year only)

CURRENT FUNDS — RESTRICTED, *Continued*

Liabilities and Fund Balances

Account No.	DESCRIPTION
	INVESTMENT IN PLANT:
550- 559	Land
560- 569	Buildings
570- 579	Improvements, other than buildings
580- 589	Equipment (including library books)
	Liabilities and Fund Balances
	UNEXPENDED:
600- 609	Accounts payable
610- 619	Notes payable
630- 649	Fund balances — detail as needed; for example:
631	Capital additions fund
632	Renewals and replacements fund
	INVESTMENT IN PLANT:
650- 659	Accounts payable
660- 669	Notes payable
670- 689	Mortgages payable
699	Net investment in plant

ENDOWMENT AND SIMILAR FUNDS

Assets

700- 709	Cash — detail as needed; for example:
700	Cash — Savings account #1
701	Cash — Savings account #2
710- 719	Investments — detail as needed; for example:
710	Bonds
711	Preferred stocks
712	Common stocks
713	Mortgage notes
714	Real estate
715	Accumulated depreciation — real estate (credit balance)
790- 799	Due from (to) other funds
	Liabilities and Fund Balances
800- 819	Payables
850- 889	Fund balances — detail as needed; for example:

ENDOWMENT AND SIMILAR FUNDS, *Continued*
Liabilities and Fund Balances

Account No.	DESCRIPTION
850	Balances of endowment funds
860	Balances of quasi-endowment funds
870	Balances of term endowment funds
895	Undistributed gains and losses on sale of investments

CURRENT FUND REVENUE

900- 919	Student tuition and fees — detail as needed; for example:
900	Tuition
901	Application fees
902	Registration fees
903	Fines and assessments
904	Student activities
905	Other fees
920- 929	Gifts — separate accounts as needed for separate fund drives, etc.:
920	Unrestricted
925	Restricted
930- 939	Endowment income
930	Unrestricted
935	Restricted
939	Income from funds held in trust by others
940- 949	Student support services — detail as needed; for example:
940	Room — if separate charges are made in addition to tuition
941	Board — if separate charges are made in addition to tuition
942	Health services
943	Student store
944	Snack bar
945	Student transportation
949	Other
950- 959	Summer school and other programs — detail as needed; for example:
950	Summer school
951	Conferences and workshops

REVENUE, *Continued*

Account No.	DESCRIPTION
952	Sponsored research
953	Public services (adult education, community services, etc.)
954	Summer camps
960- 979	Other sources — detail as needed; for example:
960	Governmental appropriations
961	Estimated value of contributed services
962	Income on temporary investments of current funds
963	Faculty housing
980- 989	Student aid:
980	Restricted gifts
981	Restricted endowment income
982	Other

CURRENT FUND EXPENDITURES

1000-2999	Instruction:
1000	Faculty salaries
	Departmental supplies, expenses and equipment — detail as needed; for example:
1100	English Department
1200	Mathematics Department
1300	Sciences Department
1400	Foreign Languages Department
1500	Art Department
1600	Music Department
2600	Guest speakers
2700	Chapel
2800	Library
2900	Athletics
3000-3900	Student support services — detail as needed; for example:
3000	Residence halls
3100	Food service
3200	Health service
3300	Student guidance and counselling
3400	Student store
3500	Snack bar

EXPENDITURES, *Continued*

Account Nr.	DESCRIPTION
3600	Student transportation
4000-4900	Student activities — detail as needed; for example:
4000	Newspaper
4100	Dramatics
4200	Band
4300	Orchestra
4400	Entertainment
4500	Student clubs
5000-5900	Summer school and other programs — detail as needed; for example:
5000	Summer school
5100	Conferences and workshops
5200	Sponsored research
5300	Public services (adult education, community service, etc.)
5400	Summer camps
6000-6900	Operation and maintenance of physical plant — detail as needed; for example:
6000	Salaries and wages
	Supplies, expenses and equipment:
6100	Buildings
6200	Grounds
6300	Equipment
7000-7900	General administration — detail as needed; for example:
7000	Salaries
	Supplies, expenses and equipment:
7100	Governing Board
7200	Headmaster's office
7300	Dean's office
7400	Admissions office
7500	Business office
7600	Registrar's office
7700	Alumni office
7800	Fund raising and development office
8000-8900	General institutional — to the extent that the following expenditures are not charged or allocated directly to the various activities, they may be accumulated and reported here:

EXPENDITURES, *Continued*

Account No.	DESCRIPTION, *Continued*
8000	Employee benefits — detail as needed; for example:
8010	FICA tax
8020	Unemployment insurance and workmen's compensation
8030	Medical and hospitalization insurance
8040	Retirement
8050	Dependent's tuition
8060	Housing and meal allowances
8100	Information and communications — detail as needed; for example:
8110	Subscriptions, publications and reports
8120	Membership dues
8130	Telephone and telegraph
8140	Printing and binding
8150	Postage and shipping
8160	Advertising
8200	Insurance
8300	Professional fees
8400	Commencement and convocation
8500	Equipment rentals
8600	Interest on current fund borrowings
8900-8999	Miscellaneous — detail as needed; for example:
8910	Entertainment
9000-9400	Student Aid:
9100	Scholarships
9200	Scholarships — faculty children
9300	Prizes and awards
9500-9900	Transfers — detail as needed; for example:
9600	Transfers to plant funds
9700	Transfers to endowment and similar funds

Chart of Accounts Descriptions

CURRENT FUNDS — UNRESTRICTED

Assets

CASH • A separate account should be established for each bank checking and savings account for monies that are available for unrestricted current

operating purposes. Separate accounts should also be maintained for petty cash funds and for change funds maintained by the bursar or other individuals.

INVESTMENTS • Securities purchased for short-term investment (treasury bills and notes, certificates of deposit, etc.) or securities received as gifts for current operations. Investments should be valued at cost or market value as of date of gift.

ACCOUNTS RECEIVABLE • A separate general ledger control account should be established for student accounts, advances to students, faculty, and staff, and any other material amounts due to the school. The data for each individual account should be maintained in a subsidiary ledger controlled by the general ledger account. Accounts receivable should be shown at face value and a separate account called "Allowance for doubtful accounts" (credit balance) established to recognize that portion of the receivables which may not be collectible.

NOTES RECEIVABLE • May be classified under accounts receivable unless substantial.

ALLOWANCE FOR DOUBTFUL ACCOUNTS • See accounts receivable.

INVENTORIES • As many accounts as needed for: (1) merchandise for sale and (2) materials and supplies used in the school; for example, inventory accounts may be maintained for food and provisions, maintenance materials, athletic supplies, items for sale to alumni, etc. The cost of such items should be charged to expense as used or sold and the same amount credited to inventory at that time. Materials and supplies which are rapidly consumed in normal operations and are of small dollar value, e.g., light bulbs, nuts and bolts, soap, etc., should not be maintained in inventory accounts but rather charged to expense as purchased. Physical inventories should be taken periodically, and the respective inventory accounts adjusted to actual value.

PREPAID EXPENSES AND DEFERRED CHARGES • Represents advance payments by the school for goods or services that are properly chargeable to subsequent fiscal periods. An example is a prepaid insurance premium covering a period of years. At the time when such goods or services are utilized, the expenditure should be charged to current operations and the prepaid account credited.

OTHER ASSETS • Includes miscellaneous deposits (air travel card, utilities), cash value of life insurance, etc.

DUE FROM (TO) OTHER FUNDS • Amounts of current funds temporarily

made available to (or from) other fund groups (such as current funds loaned to plant funds group). These accounts should not be used for permanent transfers to other fund groups (see Transfers accounts).

Liabilities and Fund Balances

NOTES PAYABLE • Liability for notes outstanding covering borrowings for current operations. The indebtedness for physical plant should be maintained under plant fund liabilities rather than in this account.

ACCOUNTS PAYABLE • Liabilities for goods received (usually represented by an invoice), but not yet paid. Various payroll taxes, dues, and insurance premiums withheld from payrolls may also be accumulated in a single or in separate accounts here until payments are forwarded to the proper agencies.

ACCRUED EXPENSES • Represents the year-end or period-end accruals for expenditures which should be charged to the current year's operations but which will not be paid until the following fiscal period or year. Payrolls due but not paid, rentals, legal fees, etc., may be accumulated here and charged in the following year as payments are made (Cr. cash, Dr. accrued expenses).

DEPOSITS AND ADVANCE PAYMENTS • Includes separate accounts for payments which the school may have to refund (breakage, keys, library books) or advance payments for registration, tuition, or admission which will be taken into income in a future period as the school renders services for such payments.

AGENCY FUNDS • The monies the school is holding for other persons, such as student allowances, student organization treasuries, chapel or charity funds, etc. If substantial in amount, such funds should properly be classified and identified as agency funds.

FUND BALANCES — ALLOCATED • Any portion of the balance of current unrestricted funds which the Governing Board has allocated or set aside for specific operating purposes. Such purposes should be disclosed. As such funds are expended, the amounts should be charged to the proper expenditure accounts, and an equivalent amount should be transferred back from the allocated fund balance to the unallocated fund balance. Unexpended balances of allocated funds may be restored at any time to the unallocated status by the Governing Board.

FUND BALANCE — GIFTS • If all unrestricted current gifts are recorded initially as additions to a single fund and subsequently transferred to current

operating revenues and other funds (the "applied" method), this fund balance account should be used.

FUND BALANCE — UNALLOCATED • The net accumulation over the years of the excess of current fund revenues over expenditures and transfers. If expenditures have exceeded revenues over the years, the account should be labeled "Accumulated Operating Deficit" and shown as a deduction in the liabilities and fund balances section of the Balance Sheet.

CURRENT FUNDS — RESTRICTED

Assets

CASH • A separate ledger account should be established for each bank checking and savings account in which is accumulated monies for specific current operating purposes designated by donors.

INVESTMENTS • Securities purchased as temporary investments for restricted current funds or received as gifts for specific current operating purposes. Investments should be valued at cost or market value as of date of gift.

ACCOUNTS RECEIVABLE • Amounts due to the restricted current fund, such as governmental or foundation grants for sponsored programs, for which the school has expended funds.

DUE FROM (TO) OTHER FUNDS • Amounts of current restricted funds made available to (or from) other fund groups. The practice of advancing restricted funds for other purposes is often in violation of the restrictions placed on those funds and should be avoided.

Liabilities and Fund Balances

ACCOUNTS PAYABLE • Liabilities for goods and services received which are to be financed by restricted funds.

FUND BALANCES • Separate accounts for the unexpended balance of each restricted current fund. The receipt of monies and other assets should be reported as an addition to these funds, rather than as current operating revenues. As restricted funds are expended for current operations, the fund balances should be reduced by the amounts recorded as current fund expenditures. (See Illustrative Journal Entry No. 8 in Chapter Three.) If there are many restricted funds, they may be accounted for in a subsidiary ledger. This account would then be the control account used to summarize the balances of the individual funds.

PROVISION FOR ENDOWMENT INCOME STABILIZATION • Accumulation of endowment income reserved to ensure that sufficient funds will be available in the future to compensate for annual fluctuations in actual investment income and provide a relatively stable flow of such income for current operations.

UNDISTRIBUTED POOLED ENDOWMENT INCOME • Accumulation of income of pooled endowment and similar funds investments. This income should be distributed annually or at a more frequent interval.

PLANT FUNDS

Assets

Unexpended

The assets for additions, for renewals and replacements, and for debt service, may be combined under this category.

CASH • Cash to be used for plant-related expenditures. If a separate checking account is to be used for construction expenditures, the cash balance of that account should be classified here. As checks are disbursed, a temporary construction in progress account should be debited for the amount of the expenditure.

INVESTMENTS • Securities representing the temporary investment of funds designated or restricted for plant use.

DUE FROM (TO) OTHER FUNDS • Amounts due from (or to) other funds or fund groups representing temporary borrowings.

CONSTRUCTION IN PROGRESS • The cost of completed portions of construction in progress. When construction is started and the unexpended plant funds are disbursed, a temporary expenditure account should be opened for construction in progress to which are charged all costs pertaining to the project. For report purposes, this account should be closed at the end of the fiscal period. (See Illustrative Journal Entry No. 10 in Chapter Three.)

Investment in Plant

LAND • The cost, or appraised value at time of donation, of land used for school purposes.

BUILDINGS • The cost, or appraised value at time of donation, of buildings used for school purposes, including dormitories, faculty housing, athletic facilities, etc. A separate account may be maintained for the cost of major renovations and improvements to buildings. Buildings should not be depreciated.

IMPROVEMENTS, OTHER THAN BUILDINGS • The cost of major improvements, such as athletic facilities. Major improvements to buildings, including renovation, may be included in the buildings account or in a subaccount for improvements under the buildings classification.

EQUIPMENT • The cost, or appraised value at time of donation, of major pieces of equipment, such as tables, chairs, audio-visual equipment, motor vehicles, maintenance equipment, office equipment, data processing equipment, etc. Equipment should not be depreciated. Library books may be included in this category.

Liabilities and Fund Balances

Unexpended

ACCOUNTS PAYABLE • Amounts due associated with expenditures of unexpended plant funds, such as progress payments due on construction in progress.

NOTES PAYABLE • Notes representing funds borrowed, but not yet expended, for construction or acquisition of plant.

FUND BALANCES • The balances of unexpended funds for additions, renewals, replacements, and retirement of indebtedness should be maintained and reported in separate accounts according to purpose.

Investment in Plant

ACCOUNTS PAYABLE • Amounts due associated with completed capital expenditures for land, buildings, improvements, or equipment.

NOTES PAYABLE • Short-term borrowings for plant acquisition.

MORTGAGES PAYABLE • Mortgages secured by physical plant. The terms of the mortgage, e.g., interest rate, maturity, repayment schedule, etc., should be disclosed parenthetically or by footnote.

NET INVESTMENT IN PLANT • These balances may be categorized by source of funds, e.g., from gifts, current funds, etc.

Endowment and Similar Funds

Schools should maintain in this group accounts for endowment funds, quasi-endowment funds, and term endowment funds. The assets of the various endowment fund subgroups may be pooled for investment purposes, except where individual endowments specify separate investments. However, fund

balances of each subgroup should be accounted for and reported separately to reflect the distinct characters and purposes.

Assets

CASH • The uninvested cash of various types of endowment and similar funds.

INVESTMENTS • Marketable securities, real estate, etc., in which endowment and similar funds are invested for the purpose of producing income, should be reported at cost, or if donated, at the market value as of the date of the gift. These amounts should not be changed to reflect changes in market. However, the basis of valuation and the market values of the investments should be revealed in the financial report parenthetically or by a footnote.

1. If investments of endowment and similar funds are not pooled or consolidated, separate accounts for the investments of each type of fund are necessary.

2. Bond premiums and discounts should be reflected in the investment accounts. Premiums should be amortized over the life of the security to recognize that such premiums represent a reduction of the income or yield of such securities. Bond discounts represent additional income and should be taken into income over the life of the security.

3. Securities should be reported by type; e.g., bonds, notes, preferred stocks, common stocks, and mortgage notes.

ACCUMULATED DEPRECIATION • The accumulated depreciation taken on real estate held for investment purposes (credit balance account).

DUE FROM (TO) OTHER FUNDS • Amounts due from (or to) other funds representing temporary borrowings.

Liabilities and Fund Balances

PAYABLES • If real estate is held as an investment of the endowment and similar funds, any related notes or mortgages secured by such assets should be recorded and reported here.

BALANCES OF ENDOWMENT FUNDS • Separate accounts for the balance of each endowment fund.

BALANCES OF QUASI-ENDOWMENT FUNDS • Separate accounts may be established by the Governing Board for each fund to function as an endowment fund, or one single fund may be used.

BALANCES OF TERM ENDOWMENT FUNDS • Separate accounts for each term endowment fund.

UNDISTRIBUTED GAINS OR LOSSES ON INVESTMENT TRANSACTIONS • The undistributed gains or losses on investment transactions should be accumulated in the account until distribution is made to the principal of the specific funds. The gain or loss should not be taken into current operations.

CURRENT FUND REVENUE

Student Tuition and Fees

TUITION • Includes all tuition *assessed* against students for operation of the regular school year program, net of refunds. To the extent that is practicable, fees for room, board, and other student services should be separately classified under student support services. Tuition assessed but not collected as of the end of the fiscal period should not be deducted from the revenue account. The portion of such receivables estimated to be uncollectible should be charged off as an expenditure and included in the provision for doubtful accounts on the Balance Sheet.

1. The preferred practice for tuition and fee exemptions is to credit student tuition and fee revenue with the full amount assessed and to charge the exemptions to the student aid expenditures account. (See illustrative Journal Entries Nos. 1 and 7 in Chapter Three.) Alternatively, such exemptions may be deducted from this account provided the amount is clearly disclosed.

2. Student tuition and fees for summer session and special programs should be separately categorized and not included here (see Page 47).

APPLICATION FEES • Application fees should be recorded as revenue in the year received.

REGISTRATION FEES • If a nominal registration fee is charged at the time of admission, such fees should be taken into revenue when the student enrolls. If, however, they represent a partial prepayment of tuition, they should be credited to the liability account for advance registration payments. The advance registration account would then be debited at the beginning of the appropriate semester and the accounts receivable account credited for the amount of prepayment.

FINES AND ASSESSMENTS • Library fines, breakage charges, etc. If revenue from fines and assessments is applied to scholarships or other purposes, it should be accumulated and reported here and then transferred to a current unrestricted fund entitled, "Allocated for Student Aid," rather than merely netted or offset against the expenditures to which they are applied.

STUDENT ACTIVITIES • Separate charges to students for special lessons, laboratory materials, etc. Fees for extracurricular activities, such as horseback

riding, etc., may be classified here and separately disclosed if substantial in amount. The revenue from subscriptions and admissions to student activities, such as school newspapers and magazines, theatre, athletics, etc., can also be recorded under this classification. If significant, revenue from athletic admissions should be reported separately.

OTHER FEES • Any fees for operating purposes which cannot be logically included in one of the above classifications.

Gifts

UNRESTRICTED • If it is the school policy to report all unrestricted gifts as current revenue, and then to make transfers to other funds, this account would be used to record and report all unrestricted gifts received in the current fiscal year.

An alternative, known as the "applied" method, is to credit all unrestricted gifts received as direct additions to the unrestricted current funds balance — gifts. Only that portion applied to current operations, e.g., transferred out of the fund, would be credited to the revenue account. (When using the "applied" method, see Principle No. 7 in Chapter One.)

Separate accounts may be used for different fund raising programs; e.g., annual giving, parents' funds, etc.

RESTRICTED • That portion of restricted gifts expended for education and general purposes during the year.

Endowment Income

UNRESTRICTED • The total unrestricted income earned on the investments of endowment funds.

RESTRICTED • That portion of restricted endowment income actually expended for educational and general purposes during the year.

INCOME FROM FUNDS HELD IN TRUST BY OTHERS • Income from funds administered by outside agents or fiduciaries. If not significant in amount, the income may be included under endowment income.

Student Support Services

The gross revenues of student support services during the regular school year should be recorded here and separately identified. Revenue attributable to the summer session should be recorded under that classification.

ROOM • Student fees for rooms if separate charges are made.

BOARD • Student fees for meals if separate charges are made.

HEALTH SERVICES • Student fees for specific medical services, including reimbursements under medical insurance plans.

STUDENT STORE • Gross sales of store or stores selling books, clothing, toiletries, etc.

SNACK BAR • Gross revenues.

STUDENT TRANSPORTATION • Gross fees for transportation services, such as school busses, trains, etc.

OTHER • Gross revenues of other student support services, such as laundry, dry cleaning, etc.

Summer School and Other Programs

SUMMER SCHOOL • The total current operating revenue may be reported here by source; e.g., tuition, restricted gifts, restricted endowment income, and student support services. If most of the expenditures for summer school fall into the subsequent fiscal year, then for reporting purposes, all revenues (and expenditures) of that session should be deferred until the subsequent year. The actual cash receipts (and disbursements) would be reported as deferred revenues (and prepaid expenses) on the Balance Sheet.

CONFERENCES AND WORKSHOPS • Revenue from fees charged for programs which are not part of the regular academic program of the school.

SPONSORED RESEARCH • Revenues for specific research or similar special, separately budgeted programs. Lump-sum payments from outside sponsors should be treated as direct additions to restricted funds, and only the amounts expended should be credited to this revenue account.

PUBLIC SERVICES • Revenue for adult education courses or other programs of community service.

SUMMER CAMPS • Gross revenues of school-sponsored or -affiliated camps.

Other Sources

To the extent applicable and material, accounts for the following other sources of educational and general revenue may be maintained and reported:

GOVERNMENTAL APPROPRIATIONS • Funds from governmental sources expendable for current educational and general purposes.

ESTIMATED VALUE OF CONTRIBUTED SERVICES • The estimated value of services provided to the school by employees or members of religious orders who do not receive compensation, less deductions for living expenses, etc.

INCOME ON TEMPORARY INVESTMENTS OF CURRENT FUNDS • Income earned from U. S. Treasury bills, notes and bonds, certificates of deposit, and other marketable securities representing the temporary investment of current unrestricted fund cash.

FACULTY HOUSING • Gross rentals of faculty housing.

Student Aid

An amount equal to all current restricted funds (from gifts, endowment income, and other sources) expended during the fiscal period for scholarships, grants-in-aid, prizes, and awards.

Current Fund Expenditures

Instruction

All expenditures of the academic programs, classified as follows:

FACULTY SALARIES • Salaries paid for teaching in the regular academic program. The salaries of individuals directly administering the instructional program, such as the Dean of Faculty or the Dean of Academic Affairs and their clerical support, should also be included here. Payments for additional duties or activities, such as administrative service, directing, or coaching extracurricular activities, and teaching summer school, should be allocated to the applicable functions if practicable. If identifiable premiums are not paid for such additional duties, the allocation may be determined by allocating a percentage of the gross compensation representing the time spent on such duties.

DEPARTMENT SUPPLIES, EXPENSES, AND EQUIPMENT • The direct expenditures for the supplies, expenses, and equipment of the academic departments and programs, including educational materials, supplies *and* equipment, textbooks, office materials, faculty travel, and developmental expenses, etc. Separate accounts may be maintained for expenditures of various departments or courses as needed; e.g., English, mathematics, science, foreign language, art, music, etc.

GUEST SPEAKERS • The honorariums and travel expenditures of guest speakers.

CHAPEL • If the school conducts a chapel or vespers program, the expenditures of that program should be recorded in this account.

LIBRARY • The administrative and staff salary and wage expense and the expenses of operations; e.g., materials *and* supplies, equipment, outside bookbinding, etc. The cost of new books and the cost of subscription services should be separately maintained and identified under this category.

ATHLETICS • The total cost of the athletic or physical education program, including payments to faculty for coaching duties, costs of referees and trainees, materials and supplies, minor equipment, etc.

Student Support Services

These comprise the operating expenditures of each student support service during the regular school year. Allocations of indirect or overhead costs may be included to the extent practicable, in order to determine the full cost of providing the service. Such information is necessary in order to evaluate realistically the proper charge to be made for such services, to compare and evaluate the cost as compared to the cost of outside services, and to compare the cost of operations with similar services at other schools.

RESIDENCE HALLS • The cost of maid service, linens, laundering, and allocations of the cost of maintaining and operating the building or portion of the building used for rooming, if practicable.

FOOD SERVICE • The salary and wages paid to the dining room and kitchen staff; the cost of food and cooking supplies, linens, silverware, and dishes; and allocations of heating and maintenance expenditures, if practicable.

HEALTH SERVICE • The gross expenditures associated with the operation of the infirmary and related health services, including salaries paid to physicians, nurses, and other medical staff, medicines, and supplies.

STUDENT GUIDANCE AND COUNSELING • The expenditures for advising students, including the salaries of the Dean of Students and the school placement counsellor and their staffs, and any expenses incurred for testing, college bulletins, and other publications. In addition, the salary of a guidance counsellor or psychiatrist and the related office expenses may be combined here.

STUDENT STORE • The total cost of operating the bookstore. If the inventory of the bookstore is carried on the Balance Sheet, the cost of goods sold during the year may be determined by adding the year's purchases to the opening value of the inventory and subtracting the value of the inventory at the end of the year.

SNACK BAR • The total cost of operating the snack bar.

STUDENT TRANSPORTATION • The cost of providing transportation services, such as bussing.

Student Activities

If practicable the amounts paid faculty advisors or instructors for participating in such activities should be allocated to the appropriate activities, as well as all direct expenditures for materials, supplies, and equipment.

Summer School and Other Programs

SUMMER SCHOOL • Accounts should be maintained for instructional expenses, administration, student support services, and maintenance, including direct expenditures and whatever allocations of normal operating expenditures are practicable. An accurate accumulation of the full operating costs of the summer session can be quite valuable in the determination of a fair charge for this program.

CONFERENCES AND WORKSHOPS • The expenditures of special programs, which are somewhat distinct from the normal academic program of the school. If such expenditures are not material, they may be included under "General Institutional."

SPONSORED RESEARCH • The expenditures incurred under research projects sponsored by outside foundations and governmental agencies, includes allocations of salary and overhead reimbursable under such contracts.

PUBLIC SERVICES • The expenditures for school programs and activities involving the community, such as adult and other educational classes, volunteer programs, etc.

SUMMER CAMPS • The gross expenditures of summer camps operated by the school.

Operation and Maintenance of Physical Plant

Operation and maintenance of physical plant categories are to be used to accumulate the cost of operating, maintaining, and repairing the school's physical plant.

Included under the appropriate categories would be expenditures for personnel and for the materials, supplies, and equipment used. Then, to the extent practicable, operating and maintenance expenditures may be allocated

to certain functions, such as residence, dining halls, and summer school (according to relative square footage or other appropriate bases) to reflect the full cost of operating such functions. The alternative treatment would be to keep all the expenditures in the operation and maintenance of physical plant function. Whichever method is used should be disclosed by footnote in the financial statements.

SALARIES AND WAGES • All salaries and wages paid to all personnel involved in operating and maintaining the physical plant, including their administrative and clerical support.

SUPPLIES, EXPENSES, AND EQUIPMENT:

• Buildings • Expenditures, other than personnel, for operating, maintaining, and insuring buildings, including student and faculty housing, athletic buildings, and other structures used in the normal operation of the school.

• Grounds • Expenditures, other than personnel, for landscape, maintenance, snow removal, and the care of athletic fields.

• Equipment • Expenditures, other than personnel, for repairing, operating, and insuring school equipment, such as mowers, power equipment, plows, and various motor vehicles used for maintenance and general purposes. Also includes maintenance contracts. The expenditures attributable to student transportation should be accumulated under that service classification. Equipment rentals, if significant, should be accumulated separately under the General Institutional classification or recorded under the appropriate functional activity or department.

General Administration

SALARIES • The salaries of administrative and clerical personnel of the departments listed below. To the extent that it is practicable, the salaries of administrators who also teach should be apportioned between the two expense categories, i.e., instruction and administration.

SUPPLIES, EXPENSES AND EQUIPMENT:

• Governing Board • The fees and/or expenses paid to trustees, alumni and visiting committees, etc.

• Headmaster's office • Expenditures for operating the office of the head of the school, including travel, entertainment, supplies, stationery, printing, etc.

• Deans' offices • Expenditures of the individuals functioning in such general administrative positions as Provost, Dean of Students, etc. The costs

for a Dean of Academic Affairs, Director of Studies, etc. would be included in the instruction classification.

• Admissions office • The costs of screening, interviewing, and accepting students for admission should be included, e.g., the expenditures of the admissions officer and his staff, materials and supplies, bulletins and catalogues, admissions testing, travel and entertainment, or recruiting expenses.

• Business office • All expenditures associated with accounting, purchasing, and general financial operations, including the expenditures of the business manager and his staff, materials and supplies, rentals of accounting equipment, printing and mailing, etc. Expenses associated with managing the investments of the school may also be included under this category or as a deduction from the endowment income.

• Registrar's office • The expenditures of the office which maintains student academic records. Included may be the cost of preparing and mailing grades and comments, preparing student schedules, and preparing and forwarding student transcripts. If such work is done by the dean's or another office, the expenditures may be accumulated under that category.

• Alumni office • All expenditures of the alumni office, such as the alumni bulletin and other publications, as well as the expenses incurred by the school in conducting regional alumni meetings and reunions. If fund raising is conducted by the alumni office, such expenditures could also be collected and identified under this category.

• Fund raising and development office • Expenses of long-range planning and fund raising, including printing, mailing, outside consultants' fees, etc. If such activities are carried out by the alumni office or some other department, the expenses may be accumulated under the appropriate category.

General Institutional

This classification may be used to accumulate and classify expenditures involving the school as a whole, or expenditures which it is not practicable to accumulate by specific function, department, or activity. For purposes of planning and evaluation, these expenditures may be redistributed to the appropriate functional departments or programs. Allocations should also be made to summer school.

EMPLOYEE BENEFITS • Benefits paid by the school, or the value of goods and services dispensed by the school to employees at no charge; e.g., meal or housing allowances. Contributions by employees toward such benefits should not be included.

• FICA tax • The school's portion of social security taxes.

• Unemployment insurance and workmen's compensation • The school's payments to governmental agencies and insurance companies.

• Medical and hospitalization insurance • Premium expenditures of the school only; not employee payroll deductions.

• Retirement • Includes the school's expenditures for retirement plans and cash pension payments to retired employees.

• Dependent's tuition • Tuition payments for children of faculty and staff at other schools and colleges. The value of tuition exemptions for such children at the school itself should be recorded as student aid.

• Housing and meal allowances • The value of meals and housing provided to or for faculty and staff.

INFORMATION AND COMMUNICATIONS:

• Subscriptions, publications, and reports • Expenditures by the school for periodicals and other printed materials; materials printed for distribution by and on behalf of the school should be recorded in the printing and binding account.

• Membership dues • Expenditures by the school for memberships on behalf of the school or specific individuals.

• Telephone and telegraph • All telephone and telegraph and similar expenditures.

• Printing and binding • Expenditures for the printing of catalogues, bulletins, stationery, brochures, etc.

• Postage and shipping • Expenditures for stamps, meter settings, parcel post, and other delivery expenses.

• Advertising • Expenditures for school advertising in magazines and periodicals.

INSURANCE • The various premium payments applicable to the current year, such as liability insurance and fidelity bonds. Property-type insurance should be included in the operation and maintenance of physical plant classification.

PROFESSIONAL FEES • Fees paid to attorneys, auditors, consultants, etc. who are not employees of the schools but independent practitioners hired for specific services. Fees paid to dentists and physicians should be recorded under student health services.

COMMENCEMENT AND CONVOCATIONS • The expenses associated with commencement and graduation, including cost of commencement speakers, catering, additional help and equipment, materials, and supplies.

EQUIPMENT RENTALS • Payments for the rental of facilities and equipment, including business machines, vehicles, furniture, etc.

INTEREST ON CURRENT FUND BORROWINGS • Interest payments on loans for current operations.

MISCELLANEOUS • Expenditures for goods and services not classified elsewhere and not allocable or chargeable to specific departments and activities.

• Entertainment • Expenditures for the entertainment of faculty and staff and other individuals (alumni).

Student Aid

SCHOLARSHIPS • The value of all student scholarships, except those to children of faculty and other employees, including foreign exchange scholarships.

SCHOLARSHIPS — FACULTY CHILDREN • The value of scholarships and tuition reductions for children of faculty and other employees.

PRIZES AND AWARDS • The value of prizes and awards to students.

Transfers

TRANSFERS TO PLANT FUNDS • The authorization by the Board of Trustees for the specific use of funds, for the acquisition of construction of physical plant or the retirement of debt thereon. Expenditures would have to be made and/or assets actually moved from the current funds group to the plant funds group.

TRANSFERS TO ENDOWMENT AND SIMILAR FUNDS • Identification of the authorization by the Board of Trustees to invest excess current unrestricted fund monies on a long-term basis as if they were endowment funds.

CHAPTER THREE

ILLUSTRATIVE JOURNAL ENTRIES

In the normal course of operations, financial transactions involve several accounts, and often, more than one fund group. The interrelationship of the accounts, however, should not prevent the maintenance of the accounting integrity of distinct funds and fund groups. Because the accounting principles governing independent schools' financial activities require precise recording of data, this chapter is included to illustrate original entries for several typical transactions.

The entries are based on the chart of accounts and coding structure described in Chapter Two. Many of the transactions involving cash receipts and disbursements would probably be recorded in a cash receipts or disbursements journal, but are illustrated in general journal format to facilitate presentation and understanding. However, non-cash entries and closing and adjusting entries should be recorded in the general journal in the format presented below.

Revenue

1. TUITION

The billing of 250 students $2,000 for the year beginning September 19 :

Account No.	*Description*	*Dr.*	*Cr.*
120	Accounts receivable — students	$500,000	
900	Tuition		500,000
	To record tuition for the year.		

2. TUITION

Checks totaling $120,000 for tuition are received:

Account No.	*Description*	*Dr.*	*Cr.*
100	Cash — general	$120,000	
120	Accounts receivable — students		120,000
	To record tuition receipts September 12, 19 .		

3. GIFTS

A gift for current operations ($75) and a gift restricted for scholarship use ($500) are received:

100	Cash — general	$ 75	
300	Cash — restricted	500	
920	Gifts — unrestricted		75
450	Fund for scholarships — gifts		500

To record gifts received September 12, 19

4. ENDOWMENT INCOME

Dividends of $750 are received from 100 shares of ABC Corporation. These shares are part of the pooled investment portfolio of the endowment and similar funds group.

300	Cash — restricted	$ 750	
491	Undistributed pooled endowment income		750

To record receipt of ABC Corporation dividend.

Expenditures

5. INVOICE — CASH BASIS FOR RECORDING THE EXPENDITURE AND THE DISBURSEMENT

A bill of $138 is paid for the printing of a brochure used by the admissions office:

Account No.	*Description*	*Dr.*	*Cr.*
7400	Admissions office	$138	
100	Cash — general		138

To record admissions office expenditures.

Note: If all admissions office expenditures are accumulated in one functional account, the expenditure will be coded to A/C 7400 (Admissions). A subsidiary account within the range 7401-7499 may be used to identify the object of the expenditure, e.g., printing. If the school charges all printing to a central publications account, the expenditure will be coded to account 8140 (printing and binding).

6. INVOICE — ACCRUAL BASIS — FOR RECORDING THE EXPENDITURE

A bill for boiler repair received during the last week in June will not be paid until the next fiscal year, i.e., July. The following entry sets up the account

payable. (This procedure may be used throughout the year for full accrual accounting or at year-end only to establish the accounts payable liability.)

6100	Buildings — supplies, expenses and equipment	$236	
210	Trade accounts payable		236
	To set up accounts payable at June 30, 19		

7. Invoice — Accrual Basis — for Recording the Disbursement

The bill for boiler repairs recorded June 30, 1968, is paid in July 19 .

Account No.	*Description*	*Dr.*	*Cr.*
210	Trade accounts payable	$236	
100	Cash — general		236
	To pay bill, set up as accounts payable at June 30, 19 .		

8. Expenditures to be Financed by Current Restricted Funds

There are two ways by which an expenditure financed by a current restricted fund can be recorded. The method to be used depends upon whether the disbursement is made from (1) a current *restricted* fund cash account or from (2) the current *unrestricted* fund cash account.

In the following examples, mathematics teaching materials costing $250 are purchased and are to be charged to current funds restricted for that purpose by a previous gift.

Method 1. Disbursement Made from the Restricted Cash Account

1200	Mathematics Department — supplies, expenses and equipment	$250	
300	Cash — restricted		250
453	Current restricted fund balance — teaching materials	250	
925	Gifts — restricted		250
	To record expenditure financed by current restricted fund — teaching materials.		

The first part of the entry records the actual expenditure and charges it to the appropriate expenditure account. The second part records the reduction in the restricted fund balance, and also is the means by which revenue of a restricted fund is reported to the extent expended.

Method 2. Disbursement Made from the Unrestricted Cash Account

Account No.	*Description*	*Dr.*	*Cr.*
1200	Mathematics Department — supplies, expenses and equipment	$250	
100	Cash — general		250
453	Current restricted fund balance — teaching materials	250	
925	Gifts — restricted		250
190	Due from current restricted funds	250	
390	Due to current unrestricted fund		250
	To record expenditure financed by restricted fund — teaching materials.		

The first and second parts achieve the same purpose as in method 1. The third part is necessary because paying for a restricted fund expenditure with unrestricted cash is an unbalanced entry. The recording of the "due to" and "due from" rebalances the accounts, and also records the fact that the current restricted fund owes money to the current unrestricted fund for the disbursement. The interfund balance can be allowed to grow, but should be periodically cleared by actual cash transfers. The journal entries to record such transfers would be:

Account No.	*Description*	*Dr.*	*Cr.*
100	Cash — general	$780	
190	Due from current restricted funds		780
390	Due to current unrestricted fund	780	
300	Cash — restricted		780
	To record liquidation of interfund balance.		

Note: The second and third part of the method 2 entry may be delayed until the end of the accounting period, at which time a determination is made as to which expenditures can be financed by available restricted funds.

9. Purchase of Equipment

There are two primary ways in which equipment can be purchased — with monies of the current unrestricted fund and with monies of the unexpended plant funds. The source of these funds dictates the manner in which the entries will be made.

Method 1. Financed by the Current Unrestricted Fund

	Equipment is purchased for $1,300 and will be paid for out of current operating revenues:		
6300	Equipment	$1,300	
100	Cash — general		1,300
	To record purchase of equipment by current unrestricted funds.		

At the end of the accounting period, the equipment would be recorded in the plant fund:

580	Investment in plant — equipment	$1,300	
699	Net investment in plant		1,300
	To record new equipment as an investment in plant.		

Method 2. Financed by Unexpended Plant Funds

Account No.	*Description*	*Dr.*	*Cr.*
631	Capital additions fund	$1,300	
500	Cash — unexpended plant funds		1,300
580	Investment in plant — equipment	1,300	
699	Net investment in plant		1,300
	To record purchase of equipment financed by unexpended plant funds.		

The first part records the disbursement of unexpended plant fund cash in exchange for an asset of equivalent value. The second part records the increase in the plant investment.

10. EXPENDITURES FOR CONSTRUCTION

A $10,000 construction expenditure is paid out of current unrestricted cash:

191	Due from expended plant funds	$10,000	
100	Cash — general		10,000
530	Construction in progress	10,000	
520	Due to current unrestricted fund		10,000
	To record disbursement for construction.		

The above entries are made at the time of each construction expenditure. Naturally, the expenditures might be paid for with unexpended plant fund monies. In that case, the entry would follow method 2 of the previous journal entry.

At the end of the fiscal period, the following entries are made to record the increase in the investment in plant. Assume that $75,000 was expended for the building:

Account No.	*Description*	*Dr.*	*Cr.*
631	Capital additions fund	$75,000	
530	Construction in progress		75,000
560	Investment in plant — buildings	75,000	
699	Net investment in plant		75,000

To record the increase in plant investment resulting from new construction.

11. Scholarships

Scholarships totaling $41,000 are granted, including $16,500 from current restricted gifts — $8,300 from restricted endowment income and $16,200 from current operating revenues.

9100	Student aid — scholarships	$ 41,000	
120	Accounts receivable — students		41,000
450	Fund for scholarships — gifts	16,500	
451	Fund for scholarships — endowment income	8,300	
390	Due to current unrestricted fund		24,800
190	Due from current restricted funds	24,800	
980	Student aid — restricted gifts		16,500
981	Student aid — restricted endowment income		8,300

To record scholarships granted in September 19 .

The first part records the scholarships as an expenditure, with the corresponding reduction in student accounts receivable. (See Illustrative Journal Entry No. 1 for the entry which recorded the tuition revenue and accounts receivable.) The second part records the liability of current restricted funds to the extent that they were used to finance student aid. The third part provides for the reporting of restricted revenues to the same extent.

12. Payroll

This simplified example illustrates the recording of a payroll. As can be seen, it comprises the distribution of salaries and employee benefits expenses to the functional expense accounts, the disbursement of cash, and the posting of the liability accounts for payroll withholdings. The payroll consists of one faculty member, one administrator (admissions officer), and a building custodian. The school pays 100% of hospitalization insurance and matches pension contributions.

Account No.	Description	Dr.	Cr.
1000	Instruction — faculty salaries	$1,000	
7000	General administration — salaries	750	
6000	Operation and maintenance of physical plant — salaries and wages	400	
8010	Employee benefits — FICA tax	95	
8030	Employee benefits — medical and hospitalization insurance	75	
8040	Employee benefits — retirement	110	
100	Cash — general		1,595
211	Taxes payable — FICA		95
212	Employees' taxes withheld — FICA		95
212	Employees' taxes withheld — State income tax		50
212	Employees' taxes withheld — Federal income tax		300
213	Employees' pension contribution		110
214	Accounts payable — hospitalization insurance		75
215	Liability for pension contribution (school)		110
	To record payroll September 19 .		

Endowment and Similar Funds

13. ENDOWMENT INCOME

See Illustrative Journal Entry No. 4.

14. DISTRIBUTION OF ACCUMULATED INCOME

This journal entry illustrates the annual distribution of pooled investment income to the restricted funds participating in the pool and to current operating revenues for unrestricted endowment funds. For purposes of illustration, restricted fund A has a 10% interest and restricted fund B a 15% interest in the pool.

Account No.	Description	Dr.	Cr.
491	Undistributed pooled endowment income	$10,000	
300	Cash — restricted		7,500
452	Fund balance — current restricted fund A		1,000
453	Fund balance — current restricted fund B		1,500
100	Cash — general	7,500	
930	Revenue — unrestricted endowment income		7,500
	To record annual distribution of endowment income and transfer of cash from the restricted fund cash account to the unrestricted fund cash account.		

15. GAIN OR LOSS ON SALE OF POOLED INVESTMENT

Assume certain common stocks having a book value of $7,500 are sold for $9,000.

700	Cash — savings account No. 1	$ 9,000	
712	Investments — common stocks		7,500
895	Undistributed gains and losses on sale of investments		1,500
	To record sale of investments.		

CHAPTER FOUR
UNIFORM FINANCIAL STATEMENTS

THE basic accounting principles are the starting point for the school that wishes to fulfill properly its stewardship obligation and satisfy its internal management needs. The second step is the recording of the data in the appropriate accounts. The third step involves the preparation of the financial statements. To be meaningful, they should disclose all significant facts necessary to present fairly a school's financial position and the results of its operations. The purpose of this chapter, therefore, is to present the formats by which the proper disclosure can be achieved. Their use throughout the independent school movement, along with the consistent application of the principles, would provide a reasonable basis for comparison, evaluation, and control by management and understanding by the public.

We must emphasize that the purpose of the illustrative statements is to indicate a general format for the minimum information recommended, and not to provide an exact example. Good judgment should still be exercised to strike a proper balance between conformity with other independent schools and full and meaningful disclosure. Naturally, those items which are not applicable cannot be reported on, and may be omitted. On the other hand, if a school desires to report in greater detail than is suggested, it may expand any of the statement classifications or provide supporting schedules to present such detail.

The following financial statements are illustrated in this chapter.

- Balance Sheet
- Balance Sheet — Alternate Form
- Statement of Current Funds Revenues, Expenditures and Transfers
- Statement of Changes in Fund Balances.

Footnotes, if required for the purpose of achieving complete disclosure, should accompany the statements.

In addition, the following supporting schedules are illustrated:

- Current Funds Expenditures — Educational and General
- Investments in Marketable Securities — Endowment and Similar Funds
- Changes in Endowment and Similar Funds Balances.

The statements comprise the minimum that a school should prepare at the end of each fiscal year. Additional statements and/or schedules, such as a Schedule of Restricted Current Fund Balances or a Schedule of Current Fund Revenue, can be prepared if they will add to an understanding of the school's

financial condition and the results of its operations. The publication of additional statements, however, should be approached with caution, as an excess of information will inhibit examination and understanding just as much as a scarcity of information. Also, in order to avoid undue confusion, statements illustrating the "applied" method of handling unrestricted gifts and bequests have been omitted. Those schools whose policies for recording gifts require the "applied" method may refer to pages 272-4 of *College and University Business Administration* for a suitable format.

Other statements that schools should consider preparing are interim management statements which enable administrators and Board members to determine current financial status during the year. A prime example is the Monthly and Quarterly Budget Status Reports which disclose the amounts expended to date, the original budget, the revised budget, and the unexpended balances. Various reports required by foundations, governmental agencies, and other organizations may also have to be prepared.

* * *

The financial statements and supporting statements have been prepared on the assumption that the hypothetical school, like most independent schools, had negligible loan, annuity and life income, and agency funds. To the extent that any of these funds are substantial, they should be reported as separately balanced fund groups. Also, the amounts shown in the uniform statements have been included only to lend realism to the formats illustrated. No attempt has been made to conform them to relationships exhibited by financial data of any independent school or to suggest particular relationships.

THE INDEPENDENT SCHOOL

Balance Sheet
June 30, 19

Assets		
Current funds:		
Unrestricted:		
Cash		$ 23,500
Investments, at cost (quoted market $70,000)		65,350
Accounts receivable, less allowance for doubtful notes of $300		7,500
Inventories, at cost		2,500
Prepaid expenses		1,250
Due from current restricted funds		3,300
Total unrestricted		103,400
Restricted:		
Cash	$ 7,150	
Investments, at cost (quoted market $16,000)	15,700	
Accounts receivable	2,000	
Total restricted		24,850
Total current funds		$128,250
Plant funds:		
Unexpended plant funds:		
Cash		19,200
Investments, at cost (quoted market $81,500)		78,450
Total unexpended plant funds		97,650
Investment in plant, at cost:		
Land	211,500	
Buildings	512,100	
Improvements, other than buildings	75,350	
Equipment	56,000	
Construction in progress	37,250	
Total investment in plant		892,200
Total plant funds		$989,850
Endowment and similar funds:		
Cash		11,950
Investments:		
Marketable securities, at cost (quoted market $889,000)	765,850	
Real estate, at cost (less accumulated depreciation of $3,200)	14,100	
		779,950
Total endowment and similar funds		$791,900

Liabilities and Fund Ba
Current funds:
Unrestricted:
Notes payable to banks
Accounts payable and accrued expenses
Student deposits
Deferred revenues — tuition and fees paid in advance
Fund balance:
Allocated
Unallocated
Total fund balance
Total unrestricted
Restricted:
Accounts payable
Provision for endowment income stabiliza
Due to current unrestricted fund
Fund balances
Total restricted
Total current funds
Plant funds:
Unexpended plant funds:
Fund balances:
Capital additions fund
Renewals and replacements fund
Total unexpended plant funds
Investment in plant:
Accounts payable
Net investment in plant
Total investment in plant
Total plant funds
Endowment and similar funds:
Fund balances:
Endowment funds
Quasi-endowment funds
Term endowment funds
Undistributed gains and losses on sale of investments
Total endowment and similar fund

THE INDEPENDENT SCHOOL

Balance Sheet
June 30, 19

			Liabilities and Fund Balances		
			Current funds:		
			Unrestricted:		
		$ 23,500	Notes payable to banks		$ 5,000
$70,000)		65,350	Accounts payable and accrued expenses		11,250
for			Student deposits		1,750
		7,500	Deferred revenues —		
		2,500	tuition and fees paid in advance		3,800
		1,250	Fund balance:		
		3,300	Allocated	$ 7,500	
		103,400	Unallocated	74,100	
			Total fund balance		81,600
	$ 7,150		Total unrestricted		103,400
$16,000)	15,700				
	2,000		Restricted:		
		24,850	Accounts payable	2,850	
		$128,250	Provision for endowment income stabilization	7,000	
			Due to current unrestricted fund	3,300	
			Fund balances	11,700	
			Total restricted		24,850
		19,200	Total current funds		$128,250
$81,500)		78,450			
s		97,650	Plant funds:		
			Unexpended plant funds:		
	211,500		Fund balances:		
	512,100		Capital additions fund		42,650
	75,350		Renewals and replacements fund		55,000
	56,000		Total unexpended plant funds		97,650
	37,250		Investment in plant:		
		892,200	Accounts payable	4,550	
		$989,850	Net investment in plant	887,650	
			Total investment in plant		892,200
		11,950	Total plant funds		$989,850
			Endowment and similar funds:		
	765,850		Fund balances:		
			Endowment funds		652,150
			Quasi-endowment funds		99,950
$3,200)	14,100		Term endowment funds		11,100
		779,950	Undistributed gains and losses on		
r funds		$791,900	sale of investments		28,700
			Total endowment and similar funds		$791,900

THE INDEPENDENT SCHOOL

Balance Sheet — Alternate Form
June 30, 19

Assets	*Current funds* Unrestricted	*Current funds* Restricted	*Plant funds* Unexpended	*Plant funds* Investment in plant	*Endowment and similar funds*
Cash	$ 23,500	7,150	19,200	—	11,950
Investments, at cost (market values disclosed by footnote)	65,350	15,700	78,450	—	779,950
Accounts receivable, less allowance for doubtful accounts	7,500	2,000	—	—	—
Inventories, at cost	2,500	—	—	—	—
Prepaid expenses	1,250	—	—	—	—
Land	—	—	—	211,500	—
Buildings	—	—	—	512,100	—
Improvements, other than buildings	—	—	—	75,350	—
Equipment	—	—	—	56,000	—
Construction in progress	—	—	—	37,250	—
Due from other funds	3,300	—	—	—	—
	$103,400	24,850	97,650	892,200	791,900
Liabilities and Fund Balances					
Notes payable to banks	5,000	—	—	—	—
Accounts payable and accrued expenses	11,250	2,850	—	4,550	—
Student deposits	1,750	—	—	—	—
Deferred revenues	3,800	—	—	—	—
Provision for endowment income stabilization	—	7,000	—	—	—
Due to other funds	—	3,300	—	—	—
Fund balances:					
Allocated	7,500	—	—	—	—
Unallocated	74,100	—	—	—	—
Restricted	—	11,700	—	—	—
Capital additions fund	—	—	42,650	—	—
Renewals and replacements fund	—	—	55,000	—	—
Net investment in plant	—	—	—	887,650	—
Endowments	—	—	—	—	652,150
Quasi-endowments	—	—	—	—	99,950
Term endowments	—	—	—	—	11,100
Undistributed gains and losses on sale of investments	—	—	—	—	28,700
	$103,400	24,850	97,650	892,200	791,900

THE INDEPENDENT SCHOOL

Statement of Current Funds Revenues, Expenditures and Transfers
Year ended June 30, 19

		Total	*Unrestricted*	*Restricted*
Revenues:	Educational and general:			
	Student tuition and fees	$426,825	426,825	—
	Gifts	78,650	65,500	13,150
	Endowment income	51,050	39,050	12,000
	Student support services:			
	Room and board	209,650	209,650	—
	Student store	64,500	64,500	—
	Snack bar	21,700	21,700	—
	Summer school and other programs	87,500	87,500	—
	Other	2,200	2,200	—
	Total educational and general	942,075	916,925	25,150
	Student aid:			
	Gifts	16,500	—	16,500
	Endowment income	8,300	—	8,300
	Total student aid	24,800	—	24,800
	Total revenues	966,875	916,925	49,950
Expenditures:	Educational and general:			
	Instruction	212,600	212,600	—
	Student support services:			
	Residence halls	70,500	70,500	—
	Food services	102,500	102,500	—
	Health services	10,650	10,650	—
	Student guidance and counselling	15,000	15,000	—
	Student store	55,300	55,300	—
	Snack bar	19,600	19,600	—
	Student transportation	3,150	3,150	—
	Student activities	21,600	6,450	15,150
	Summer school and other programs	65,000	55,000	10,000
	Operation and maintenance of physical plant	147,350	147,350	—
	General administration	71,050	71,050	—
	General institutional	36,800	36,800	—
	Total educational and general	831,100	805,950	25,150
	Student aid:			
	Scholarships	40,000	16,200	23,800
	Prizes	1,000	—	1,000
	Total student aid	41,000	16,200	24,800
	Total expenditures	872,100	822,150	49,950
	Excess of revenues over expenditures	94,775	94,775	—
Transfers to:	Plant funds — unexpended:			
	Capital additions fund	25,250	25,250	
	Renewals and replacements fund	30,000	30,000	
	Quasi-endowment fund	20,000	20,000	
	Total transfers	75,250	75,250	
	Excess of revenues over expenditures and transfers	$ 19,525	19,525	

THE INDEPENDENT SCHOOL

Statement of Changes in Fund Balances
Year ended June 30, 19

	Current funds		Plant funds		
	Unrestricted	*Restricted*	*Unexpended*	*Net investment in plant*	*Endowment and similar funds*
Balances at beginning of year	$52,075	30,400	47,150	882,900	739,750
Excess of revenue over expenditure and transfers	19,525	—	—	—	—
Gifts	—	16,500	2,500	—	33,650
Endowment income	—	14,750	—	—	—
Investment income plant funds	—	—	5,000	—	—
Establishment of quasi-endowment fund	—	—	—	—	20,000
Transfer from current unrestricted fund to unexpended plant funds for:					
Capital additions fund	—	—	25,250	—	—
Renewals and replacements fund	—	—	30,000	—	—
Capital expenditures	—	—	(12,250)	12,250	—
Expiration of term endowment fund	10,000	—	—	—	(10,000)
Expenditures — transferred to current funds revenues	—	(49,950)	—	—	8,500
Net gain on sale of securities	—	—	—	—	
Disposal of equipment	—	—	—	(7,500)	—
Balances at end of year	$ 81,600	11,700	97,650	887,650	791,900

THE INDEPENDENT SCHOOL

Current Funds Expenditures — Educational and General
Year ended June 30, 19

Schedule 1

Instruction:		
Faculty salaries	$148,200	
Department supplies, expenses and equipment	29,350	
Chapel	2,050	
Library	25,050	
Athletics	7,950	212,600
Student support services:		
Residence halls	$ 70,500	
Food service	102,500	
Health service	10,650	
Student guidance and counseling	15,000	
Student store	55,300	
Snack bar	19,600	
Student transportation	3,150	276,700
Student activities:		
Newspaper	3,500	
Dramatics	9,050	
Band	2,100	
Entertainment	5,200	
Student clubs	1,750	21,600
Summer school and other programs:		
Summer school	55,000	
Adult education	10,000	65,000
Operation and maintenance of physical plant:		
Salaries and wages	81,350	
Supplies, expenses and equipment:		
Buildings	43,600	
Grounds	10,900	
Equipment	11,500	147,350
General and administration:		
Salaries	50,900	
Governing Board	2,400	
Headmaster's office	5,250	
Dean's office	2,500	
Admissions office	2,850	
Business office	4,375	
Alumni office	2,775	71,050
General institutional:		
Employee benefits	19,600	
Information and communications	10,250	
Insurance	5,200	
Commencement	1,100	
Miscellaneous	650	
		36,800
Total educational and general		$831,100

THE INDEPENDENT SCHOOL

Investments in Marketable Securities — Endowment and Similar Funds

June 30, 19

Schedule 2

		Principal amount or number of shares	*Cost or market value at date of gift*	*Market value at Jun. 30, 19*
Bonds:				
Government securities:				
U. S. Treasury notes				
5% 11/15/70		$ 35,000	35,014	34,731
Corporate bonds:				
Bethlehem Steel Corp.				
5.40% 1/15/92		50,000	50,000	48,250
General Electric Credit Corp.				
4.85% notes 6/15/90		90,000	89,000	89,000
Pan American World Airways conv.				
sub. deb. 4½% 8/1/86		150,000	150,000	158,500
			289,000	295,750
Common stocks:				
Eastman Kodak Co.	Shs.	1,050	109,500	120,175
International Paper Corporation		1,000	30,500	26,200
Standard Oil Co. (N.J.)		5,000	135,000	148,000
U. S. Plywood Corporation		840	16,836	26,760
Xerox Corporation		100	150,000	237,000
			441,836	558,135
Total investments			$765,850	888,616

THE INDEPENDENT SCHOOL

Changes in Endowment and Similar Funds Balances
Year ended June 30, 19

Schedule 3

	Balance at beginning of year	*Additions (Deductions)*	*Balance at end of year*
Endowment funds:			
A. H. Smith fund	$194,450	—	194,450
R. T. Cabot fund	171,100	—	171,100
Buckley scholarship fund	96,500	—	96,500
Mills scholarship fund	60,000	12,100	72,100
Maillovel faculty advancement fund	26,350	18,150	44,500
Pearson guest speaker fund	39,100	1,500	40,600
Kent-Cromwell fund	7,200	1,100	8,300
Chandler Corp. fund	3,800	800	4,600
Horton fund	20,000	—	20,000
	618,500	33,650	652,150
Quasi-endowment funds:			
Faculty retirement fund	59,900	—	59,900
Trustees' scholarship fund	—	20,000	20,000
Summer study fund	16,050	—	16,050
Special purpose fund	4,000	—	4,000
	79,950	20,000	99,950
Term endowment funds:			
Peterson fund	11,100	—	11,100
Hunter fund (expired during year)	10,000	(10,000)	—
	21,100	(10,000)	11,100
Undistributed net gain on sale of securities	20,200	8,500	28,700
	$739,750	52,150	791,900

CHAPTER FIVE

BASIC ACCOUNTING SYSTEMS

THE introduction to the chapter entitled "Principles and Procedures of Accounting and Financial Reporting" in *College and University Business Administration* contains the following remarks:

> The purpose here and in the following chapters is to present methods of reporting financial data, but not to give detailed instructions regarding accounting forms and systems. The recommendations presuppose the presence of competent accounting personnel and a system of bookkeeping adequate to record, classify, and summarize all financial transactions, and to produce reports of operations and fund transactions and assets, liabilities, and balances by fund group.

In writing this manual for independent schools, we have recognized that most schools do not have the size or financial resources to warrant the degree of staffing or equipment found in most colleges and universities. Indeed, the accounting principles and practices and the chart of accounts developed in this manual reflect the modification of basic accounting standards for colleges and universities to meet the less complex accounting and reporting needs of independent schools.

We include this chapter, therefore, to illustrate some basic accounting systems designed to enable even the smallest schools to maintain a "system of bookkeeping adequate to record, classify, and summarize all financial transactions" in accordance with the recommended accounting principles and practices. We should emphasize that the illustrated systems, forms, and procedures are examples of typical approaches rather than definitive or ideal methods, and that the functions of such systems are more important than the particular physical appearance of the forms used. They may be modified to suit the needs of the school or ignored if adequate alternative systems exist.

Please note that virtually every step of the accounting process has been "automated" to some degree, ranging from the use of rubber stamps to time-sharing computer service bureaus. Accounting "packages" are available at reasonable cost for specific applications, such as payroll or cash receipts and disbursements, and include standard forms and systems designed to record simultaneously repetitive data and provide convenient summarization and controls. As the volume of transactions increases, similar electronic data processing "package" applications, available from banks and computer service bureaus, can be utilized economically to reduce the clerical workload.

Journals of Original Entry

Journals of original entry are records for the chronological recording of financial transactions that indicate the respective debits and credits for subse-

quent posting to the individual accounts in the general and subsidiary ledgers. No entries should be posted directly to the general ledger which have not first been recorded in one of the journals of original entry. Examples are the cash receipts journal, the cash disbursements journal, and the general journal. Correspondingly, all postings to the individual general ledger accounts should be referenced to the appropriate journal of original entry, so that one may always readily locate and examine the description of the complete transaction from any element of it.

Journals are often maintained on multi-columnar sheets for purposes of convenient summarization. For instance, a columnar spread of frequently used expenditure classifications or accounts in the cash disbursements journal serves to group charges of similar type for later posting in total to the general ledger accounts affected. The cash receipts journal uses the same columnar format to distribute types of receipts so that summary totals may be posted to the ledger accounts at the end of the month.

Many schools maintain a student tuition journal, or student account journal, in which is recorded, by student, the detail of tuition and fees assessed and revenues received. This detail is summarized and periodically recorded in, or balanced to, the general ledger accounts affected.

Cash Receipts Journal

The receipt of cash should be recorded daily in a cash receipts journal. This journal can be used to record in detail each item of cash received, or in those instances when subsidiary listings are maintained for the detail of tuition payments, investment dividends, gifts, etc., to summarize daily receipts by type.

Form #1 illustrates a typical cash receipts journal. Frequently used accounts are pre-printed on the page. An "other" column is for the less frequently used accounts. At some regular interval, monthly or quarterly, the cash receipts journal should be posted in summary fashion to the individual general ledger accounts.

A good element of internal control is the depositing of the day's cash receipts intact to the appropriate bank accounts so that total receipts per the bank (deposits) and per the cash receipts journal are in agreement.

Cash Disbursements Journal

A cash disbursements journal is basically a record of cash disbursements which can be easily designed to indicate both the expenditure accounts to be debited and the proper cash account to be credited. The cash disbursements journal illustrated in Forms #2 and 2(B) provide this capability and also illustrate a simplified method of maintaining accounting records on an accrual basis.

Invoices are posted to the "payable" column of the cash disbursements journal as they are received. As each invoice is paid, the remainder of the applicable line is filled in with the number, date, and amount of the check and the expenditure accounts to be charged. Frequently used expenditure categories and types may be set up as columnar headings. This combined journal thus provides a current record of invoices that have been received, and information as to whether they are paid or unpaid. Therefore, at the end of the month or accounting period, the total amount of postings to accounts payable less total checks paid represent the total unpaid bills, arranged in order of receiving. (Vouchers not paid at the end of the month would have to be listed at the start of the following month's journal page.) If the volume of monthly disbursements is substantial, a separate payables or voucher register is advisable, so that the disbursements journal reflects only checks written in a given month.

The cash disbursements journal described above records invoices in the order in which they are received, and hence, does not provide a sequential listing of checks written. If such a listing is required, a three-part snap-out check voucher is available for making payments. Each set is essentially a check and two carbon copies. The first carbon can be filed in numerical sequence by check number, and the second carbon may be attached to the invoice and receiving slips and filed alphabetically by vendor for reference purposes or by employee name for payroll checks. The distribution of the charges to expense accounts may also be indicated on the check voucher as illustrated in Form #3.

If individual payroll checks are disbursed from the general checking account, the disbursement journal can also be designed to contain required payroll information as illustrated in Form #2(A). Payroll and other expenses are posted to the appropriate columns, and the liabilities arising from employee withholdings are simultaneously recorded. This journal becomes rather unwieldy if more than twenty to thirty persons are on the payroll. In such circumstances, a separate payroll register is suggested (see Form #5 and the Payroll Register section of this chapter), and the disbursements journal would be as illustrated in Forms #2 and 2(B).

General Journal

The general journal should be used to record all entries or postings to the general ledger not originating in other books of original entry. The general journal would thus contain journal entries for non-cash transactions, such as the setting up of tuition revenue in accounts receivable, and transfers between funds or fund groups.

The general journal contains journal entries showing the accounts and amounts to be debited, and the accounts and amounts to be credited, together with an explanation of the journal entry. Each journal entry should be num-

bered and dated for reference purposes, and postings to the general ledger should indicate the journal entry number. Frequently, the first digit of the journal entry number indicates the month, and journal entries are numbered consecutively within that month, e.g., January 1-1, 1-2, 1-3; February 2-1, 2-2, 2-3, etc.

If standard or repetitive journal entries are made monthly or at some other periodic interval, it is often convenient to pre-print the account names and numbers, and fill in only the dates and amounts at the appropriate times. This is called a recurring journal.

Form #4 illustrates postings to a general journal.

Payroll Register and Individual Earnings Record

For schools with more than twenty to thirty employees, it is generally preferable to establish a separate payroll checking account and payroll register to segregate that accounting function from the school's other disbursements. The need to provide an accurate accounting to the employees and outside agencies of the employees' gross pay, net pay, and various withholdings, as well as the desire to handle this entire operation efficiently and accurately, strongly supports the use of a separate payroll register and individual employee earnings record.

The payroll register illustrated in Form #5 can be used to calculate and record the details for each individual employee. When the payroll is completed, the various columns are totalled and posted in summary fashion to the general ledger or a journal of original entry. (See Illustrative Journal Entry No. 12, Chapter Three.) A check is drawn on the regular checking account for the amount of the total net pay and is deposited in the payroll bank account. The individual employee checks are then drawn from the payroll account.

Form #6 illustrates an individual earnings record on which basic payroll information is recorded and earnings data are accumulated to provide the basis for the various payroll reports required periodically by State and Federal agencies. This form should be supported by the proper documentation for changes in wage and salary rates, withholding authorizations, etc.

To eliminate some of the repetitious and time-consuming posting of data involved in payroll preparation, several "one-write" or pegboard payroll systems have been developed. Such devices permit the preparation of the individual payroll check and the simultaneous posting of payroll register and individual earnings record in a relatively simple manner. Such systems are quite inexpensive and are available from publishers and business forms printers and suppliers. Also, bank computers and other service bureaus are available for payroll processing; but schools should make sure that they are familiar with "school payroll problems."

General Ledger

The general ledger is a record of all financial transactions classified and summarized by individual account. It is the final and permanent record of transactions, and from it are obtained the data for the preparation of financial statements and operating reports.

The general ledger is normally set up in the same account sequence as the Chart of Accounts. At the end of some convenient time period, e.g., monthly, the transactions posted in the journals of original entry are summarized and the total debits and credits for each balance sheet, revenue, and expenditure account are posted to the respective general ledger accounts (see Form #7). All postings to the general ledger are assigned references by the date and source of the entry, so that there will always be a clear trail to the source of the original entry.

Monthly, a trial balance of the general ledger by fund groups, e.g., a listing of the debit or credit balance of each account, should be produced to ensure that total debits equal total credits.

Imprest Cash Funds

Every school needs imprest cash funds to facilitate the prompt and convenient payment of small items or to make change in the school snack bar or store.

A petty cash or change fund may be established on an imprest basis by issuing a check payable to the custodian of the fund for $25 or some other amount appropriate to the use of the fund. The establishment of the fund would be accounted for as a debit to a cash account representing the fund (account No. 102 — petty cash) and a credit to the regular cash account. The petty cash fund should have this original balance on the books, until the amount of the fund is changed.

Whenever cash is disbursed from the fund, a petty cash voucher (Form #8) should be prepared, indicating the reason and amount of the disbursements, approved, signed by the person receiving the cash, voided, and placed in the petty cash box (together with a receipt if one can be obtained). At all times, the total of the actual cash and vouchers in the box should equal the amount originally authorized in the fund.

When the amount of cash reaches a low level, or at the end of the month, a check is drawn on the regular checking account to replenish the fund equal to the amount of the petty cash vouchers. The amount of the replenishment check is distributed to the expenditure categories indicated on the individual vouchers. If the fund is used exclusively for change-making purposes, the fund should be restored to its authorized balance at the end of each day, and any additional monies should be reported as appropriate revenues.

Petty cash funds should normally not be used to purchase materials and supplies except in emergencies. Disbursements are usually less than $10 and should represent miscellaneous items, such as minor advances, postage due, freight due, etc.

Purchase Order/Receiving Form

As the volume of purchases increases, it is often desirable to create some documentation to standardize and control the purchasing cycle. The purchasing cycle involves the following elements:

- Request for purchase from a school department or office
- Purchase order from the school to the vendor
- Record of receipt of goods
- Authorization to pay vendor's invoice
- Record of payment.

A multi-purpose form, such as that illustrated in Form #9, can be utilized to document the purchase cycle described above. Appropriate signatures indicate the individuals requesting, purchasing, receiving, and authorizing payment.

The form may be prepared in triplicate with the original copy being sent to the vendor. A second copy is sent to the requesting individual signifying that the order has been placed. The third copy is kept in an open order file until the goods are received, and then serves as a receiving copy. When the invoice from the vendor arrives, it is matched with the receiving copy, coded for expense account distribution, and presented to the appropriate individual for payment authorization. Upon payment, the form and invoice are stamped "PAID" (to avoid duplicate payment) and filed by vendor to provide a record of the history of the purchase.

CASH RECEIPTS JOURNAL

DATE	DESCRIPTION	BANK DEPOSIT	DR CASH			ACCOUNTS RECEIVABLE TUITION ACCT. NO. 120	GI ACCT.
			UNRESTRICTED ACCT. NO. 100	OTHER ACCT	OTHER AMOUNT		
9-27-	Tuition - Robert Jones	$1 000 00	1 000 00			1 000 00	
9-27-	Tuition - Steven Smith	1 000 00	1 000 00			1 000 00	
9-27-	Annual Alumni Giving	1 575 00	1 575 00				1
9-28-	Dividends - IBM Corp.	110 00		300	110 00		
9-28-	Sales - Bookstore	675 89	675 89				
9-28-	Sales - Snack bar	728 19	728 19				

Form No. 1

	DR CASH			CR				
	UNRESTRICTED ACCT. NO. 100	OTHER		ACCOUNTS RECEIVABLE TUITION ACCT. NO. 120	GIFTS ACCT. NO. 920	ENDOWMENT INCOME ACCT. NO. 491	OTHER SOURCES	
		ACCT	AMOUNT				ACCT.	AMOUNT
00	1 000 00			1 000 00				
00	1 000 00			1 000 00				
00	1 575 00				1 575 00			
00		300	110 00			110 00		
89	675 89						943	675 89
19	728 19						944	728 19

19

CASH DISBURSEMENTS JOURNAL

DATE	VENDOR - PAYEE	ACCOUNTS PAYABLE	CHECK DATE AND NUMBER	CR CHECK AMOUNT	INST'L & DEPT'L		GE
					ACCT.	AMOUNT	AC
9-24-	Alpha Textbook Co.	261 50	9/27/ 129	261 50	1100	261 50	
9-26-	Smith Printing	29 65	9/28/ 130	29 65			81
9-27-	Jones Electrical Supply	13 21	9/28/ 131	13 21			
9-27-	Armour Meat	671 50	9/30/ 132	671 50			
9-27-	Capital Hardware	19 69					
9-29-	Telephone Company	204 00					

(A)

CR LIABILITIES					
FEDERAL TAX WITHHELD	STATE TAX WITHHELD	F.I.C.A. WITHHELD	PAYROLL DEDUC-TIONS	OTHER	
				ACCT	AMOUNT

(B)

OTHER ACC		

Form No. 2

ACCOUNTS PAYABLE	CHECK DATE AND NUMBER		CR CHECK AMOUNT	DR EXPENSE					
				INST'L & DEPT'L		GENERAL ADMIN.		OTHER	
				ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT
261 50	9/27/	129	261 50	1100	261 50				
29 65	9/28/	130	29 65			8140	29 65		
13 21	9/28/	131	13 21					6100	13 21
671 50	9/30/	132	671 50					3100	671 50
19 69									
204 00									

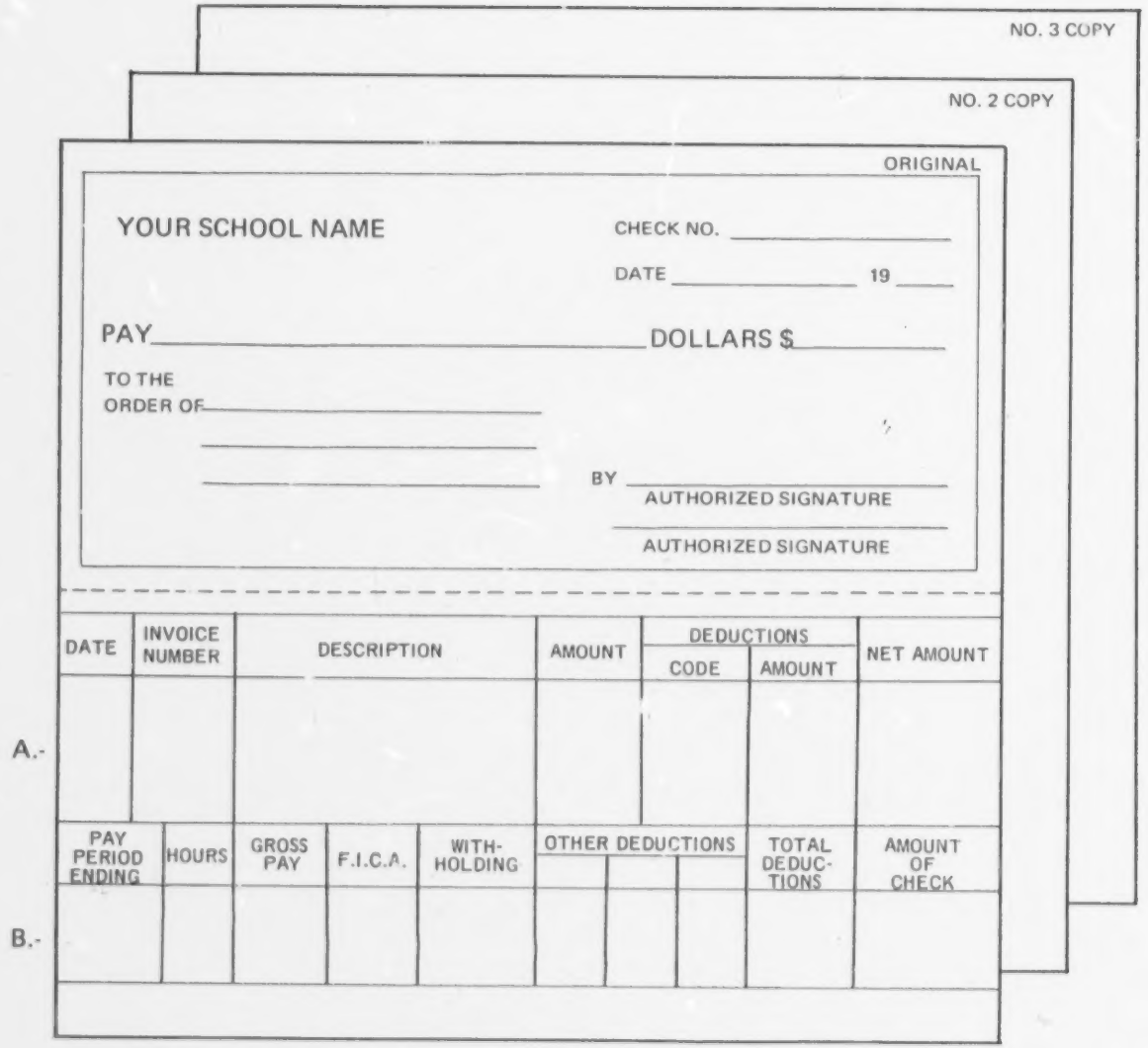
(B)

OLL UC- NS	OTHER	
	ACCT	AMOUNT

OTHER ACCOUNTS AS NECESSARY					
				OTHER	
				ACCT.	AMOUNT

Form No. 3

CHECK VOUCHER



NOTE: Schools using separate checks for payroll would design the check voucher using the columns designated in Row B only.

Form No. 4

GENERAL JOURNAL

DATE	JE NUMBER	ACCOUNT	ACCOUNT NUMBER	D R	C R
9-15-	9-1	Accounts receivable - Students	120	$100,000.00	
		Revenue - Tuition	900		$100,000.00
		To record tuition revenue			
9-16-	9-2	Legal expense		500.00	
		Accounts payable	210		500.00
		To record legal bill	8300		

Form No. 5

PAYROLL REGISTER

PAYROLL FOR WEEK ENDING _____ DEPT. _____

PAGE _____

LINE NO.	NAME	HOURS *			RATES *		TOTALS			DEDUCTIONS						NET PAY	CHECK NO.
		REG.	OT	TOTAL	REG.	OVER-TIME	REG.	OVER-TIME	GROSS WAGES	FED. INCOME TAX	STATE INCOME TAX	FICA	GROUP INSURANCE	OTHER	TOTAL		
1																	
2																	
3																	
4																	
5																	

*For part-time employees and others paid on an hourly basis.

INDIVIDUAL EARNINGS RECORD

Form No. 6

RECORD OF EARNINGS OF	TELEPHONE NO.	SOC.SEC.NO.	SALARY
ADDRESS	AUTHORIZED DEDUCTIONS	DATE EMPLOYED	NO. OF E: EMPTS.

DATE	PER. END-ING	HOURS *			RATES *		TOTALS			DEDUCTIONS						NET PAY	CHECK NO.
		REG.	OT	TOTAL	REG.	OVER-TIME	REG.	OVER-TIME	GROSS WAGES	FED. INCOME TAX	STATE INCOME TAX	FICA	GROUP INSURANCE	OTHER	TOTAL		

*For part-time employees and others paid on an hourly basis.

GENERAL LEDGER

FUND
Current
Unrestricted

ACCOUNT NO. 100 ACCOUNT NAME Cash

DATE		POST REF	DR	CR	BALANCE	
					DR	CR
7- 1-	Balance fwd.		$27,500		$27,500	
7-31-		CR1	2,250		29,750	
7-31-		CD1		1,200	28,650	
8-31-		CR3	1,100		29,650	
8-31-		CD3		2,700	26,950	

Form No. 8

PETTY CASH VOUCHER

NO. 36 AMOUNT $ 2.50

RECEIVED OF PETTY CASH

10/22 19

FOR Postage - Business Office

CHARGE TO Postage A/C 8150

APPROVED BY RECEIVED BY

Form No. 9

PURCHASE ORDER / RECEIVING FORM

NAME OF SCHOOL
ADDRESS

PURCHASE ORDER / RECEIVING FORM

TO
ADDRESS
CITY

MONTH DAY YEAR
DATE ____ / ____ / ____
ORDER NO. ____

SHIP TO
ADDRESS
CITY

QUANTITY		DESCRIPTION	UNIT PRICE	AMOUNT
ORDERED	RECEIVED			

SIGNATURE ____ REQUESTED BY
RECEIVED BY ____
DATE ____

SIGNATURE ____ APPROVED
SIGNATURE ____ FINANCIAL OFFICER

EXPENSE DISTRIBUTION

A/C	AMOUNT

GLOSSARY

The definitions presented apply to terms peculiar to educational institutional accounting and to terms from commercial accounting which have particular relevance in educational business administration.

Account • A descriptive heading under which are recorded financial transactions that are similar in terms of a given frame of reference, such as purpose, object, or source.

Accounting period • A period at the end of which, and for which, financial statements are prepared. The most common accounting periods are the month, quarter, and fiscal year.

Accounts payable • Unpaid balances of invoices which have been recorded as expenditures in the accounts but will not be paid until a subsequent period.

Accounts receivable • Amounts owed to the school from students, faculty, employees, etc.; includes tuition and fees billed but not yet collected.

Accrual basis • The basis of accounting and reporting under which revenues are recorded when they become due (e.g., tuition), even though they are collected in a subsequent fiscal period, and expenditures incurred are recorded although actual payments are to be made at a later date. The accrual basis is contrasted with the "cash basis" in which revenues and expenditures are recorded and reported only when cash is received or paid out. The terms revenues and expenditures are used in the accrual basis of accounting and reporting and the terms receipts and disbursements in the cash basis.

Accrued expenses • Amounts owed for expenditures for which bills or invoices have not yet been received.

Agency funds • The monies received by a school to be held and disbursed only on the instructions and behalf of the person or organization from which they were received; funds of student organizations, individual students, or faculty members.

Annuity funds • The funds acquired by a school under plans whereby it obligates itself to distribute periodically fixed payments to the donor or other designated individuals over a time specified in the annuity agreement. The term "annuity" should not be applied to the payment of pensions to the retired staff of the school; "retirement allowances" or "pensions" should be used to designate such items.

Applied method • The process of recording unrestricted gifts whereby they are considered first received into a development or similar fund and then

distributed to other funds for operations, for capital construction or acquisition, for investment, etc.

Appropriation • An amount authorized by some governmental authority for a specific purpose; funds made available for expenditures, though not necessarily received as yet. Authorizations by trustees for specific purposes are properly designated as "allocations."

Audit • The examination of documents, records, reports, systems of internal control, accounting procedures, and other information to determine the propriety, legality, and mathematical accuracy of transactions; to ascertain whether all transactions have been recorded; and to determine whether transactions are accurately reflected in the accounts and in the financial statements drawn from them in accordance with generally accepted accounting principles. (See *Independent audit.)*

Auxiliary enterprise • See *Student support services.*

Balanced fund group • A grouping of similar funds, e.g., current, endowment, etc., for reporting purposes. The value of the assets of the group of funds is equal to the value of the liabilities and fund balances of the funds. Thus, the Balance Sheet comprises groups of funds which are individually balanced and reported.

Balance Sheet • A statement setting forth the school's financial position as of a given date, disclosing assets, liabilities, and fund balances of each fund group in balanced sections.

Budget • A plan of financial operations detailing the estimated expenditures for a given period by function, activity, department, and/or project, and the proposed means of financing such expenditures.

Budgetary control • The control or management of the business affairs of a school in accordance with an approved budget, with a view toward keeping expenditures within the authorized amount.

Capital outlay • An expenditure which results in the acquisition of a fixed asset, or the permanent addition to a fixed asset, such as the purchase of land, buildings and major equipment, building additions and remodeling, and significant improvements of grounds.

Cash basis • The basis of accounting under which revenues are recorded and reported only when received in cash, and expenditures are accounted for and reported only when paid; contrasted with the accrual basis.

Chart of accounts • A list of the accounts used in the accounting system; contains account titles and account numbers. Accounts are arranged in accordance with the nature of the accounts, i.e., assets, liabilities.

Consolidated investments • See *Pooled investments.*

Contractual commitment • An obligation in the form of an order, signed contract, or similar item which will become payable when the goods are delivered or the services rendered.

Contributed services • A term used in schools conducted by religious orders, societies, or similar groups to denote the estimated monetary value of the services of members of the organization or volunteers who receive no monetary compensation.

Control account • An account usually kept in the general ledger in which the postings to a number of identical, similar, or related detailed accounts are summarized, so that the balance in the control account equals the sum of the balances of the detailed accounts. The control account serves as a check on the accuracy of the detailed account postings and is often used in the preparation of summary financial statements.

Current funds expenditures • Expenditures made from current funds for current operations.

Current funds • Funds expendable for current operating purposes, either unrestricted or restricted.

Current funds revenues • All receipts and accruals of unrestricted current funds and that portion of restricted current funds actually expended during the current fiscal period.

Current income • See *Current funds revenues.*

Current restricted funds • The funds which are available for current operations only, in compliance with the restrictions specified by the contributor or grantor, as distinguished from current unrestricted funds, which are available for any current purpose.

Current unrestricted funds • Unrestricted funds which are available for any current operations, as distinguished from current restricted funds which are available for only certain purposes. The classification *includes* the allocated current unrestricted funds which have been set aside for special operating purposes by the school rather than by the donor.

Debt service • All payments in connection with funds borrowed by a school, e.g., principal payments, interest charges, payments to sinking funds to ensure future principal and interest payments, payments to reserves to ensure proper upkeep and maintenance of the facilities, trustees' service charges, legal expenses, and other items related to indebtedness.

Deferred gifts • Gifts held by the school or in trust for it, but which do not actually accrue to the school until a definite date or set of circumstances has occurred, e.g., death of a donor and/or spouse or completion of education of children.

Direct expenditures • Expenditures which can be easily and readily identified with specific activities or programs, as distinguished from indirect expenditures (e.g., heat, light, and insurance), which cannot be readily attributed to specific activities or programs.

Disbursements • Payments in cash. In institutional accounting it also refers primarily to deductions from the balances of the funds and all fund groups except the current funds group where the term expenditures is used.

Double entry • Double entry refers to an accounting system in which for each entry to the debit side of an account or accounts, there are entries in the same total amount to the credit side of another account or accounts.

Encumbrances • Obligations incurred in the form of orders, contracts, and similar items that will become payable when goods are delivered or services rendered. The term is synonymous with commitments. Most independent schools do not practice encumbrance accounting.

Endowment funds • Funds restricted by the donor to be invested and maintained intact, with only the investment income available for operating or other purposes. (See *Quasi-endowment funds.*)

Entry • The complete recording of a transaction in a journal, or the posting from the journal to the appropriate ledger account.

Equipment • All movable property that is of a permanent nature. The term excludes items which are consumed or used up in normal operating functions, e.g., materials and supplies.

Expenditures • Charges incurred for goods delivered or services rendered, whether actually paid or unpaid, for the operation of a school and for additions to its plant. Transfers between funds, the investment of cash, payments of cash in settlement of liabilities already accounted for as expenditures, and the repayment of the principal of current loans are not considered as expenditures.

Expenses • Expenditures representing items consumed or exhausted in the normal operations of the school, hence, not applicable to plant and other capital expenditures.

Fiscal year • Any twelve-month period at the end of which a school closes its books and determines its financial position and the results of the year's operations. The Governing Board may change the fiscal year.

Functional classification • The grouping of expenditure items according to the purpose for which costs are incurred, e.g., by program, subject, or department.

Fund • An accounting entity established to record assets designated for a specific purpose and to record transactions affecting such assets. The term includes assets and related liabilities, revenues and expenditures, receipts and disbursements, and balances. In the plural, the term designates a fund group.

Fund balance • Principal of a fund. An amount equivalent to the excess of assets over liabilities of a fund, and which is, therefore, available for the fund's specific purpose.

Fund group • A group of funds of similar character, such as current funds, loan funds, plant funds, and agency funds.

Funds functioning as endowment • See *Quasi-endowment funds.*

Funds held in trust by others • Funds held and administered by an outside trustee for the benefit of a school or schools.

General ledger • A grouping of accounts in the degree of detail desired to summarize the financial transactions of the school. Included are summary and control accounts for which more detailed subsidiary ledgers of accounts are maintained.

Income • Restricted to net income, or revenues less expenses, of an operating unit within a school, e.g., the school store or snack bar. The term also refers to the earnings on investments.

Income stabilization reserve • The accumulated amounts set aside, by action of the Governing Board, from the income on investments to stabilize the amount of such income available for annual use.

Independent audit An audit performed by an independent auditor, in contrast to an audit performed by an internal auditor on the school's staff.

Indirect expenses • Expenses which cannot be easily or readily identified with a specific program or activity, e.g., maintenance, heat, and insurance. Often the expenses are prorated to specific activities on the basis of such yardsticks as per cent of total expenditures, number of students, or square footage.

Instruction expenditures • Expenditures of instructional departments, including salaries, office expense, laboratory expense, equipment, and other expenses.

Internal audit • An audit made on a continuous basis by persons on the staff of the business office. (See *Audit* and *Independent audit.*)

Internal control • A plan of organization under which employees' duties are arranged and records and procedures designed so as to make it possible to exercise effective accounting control over assets, liabilities, revenues, and expenditures. Such controls are particularly important in the procedures for receiving and disbursing cash and posting related accounts, where, if possible, no one employee should perform the complete cycle of operations.

Invoice • An itemized list of merchandise purchased from a vendor or of services rendered. The list includes quantity, description, price, terms, date and the like.

Journal • An accounting record in which the details of financial transactions are first recorded, such as the cash receipts book and cash disbursements book. Sometimes called register or book of original entry.

Life income funds • The funds acquired by the school under plans whereby it obligates itself to pay periodically to the donor or other stipulated individuals the income earned by the assets donated to the school for the lifetime of the donor or designated individuals. If the school is obligated to pay stipulated amounts, rather than only the income actually earned by the assets, the term annuity should be used.

Loan funds • Funds available for loans to students, faculty, or staff. When both principal and interest of a loan fund are loanable, they are included in the loan funds group. If only the income from a fund is loanable, the principal is included in the endowment and similar funds group, while the cumulative income constitutes the loan fund.

Merged investments • See *Pooled investments*.

Nonexpendable funds • Funds, the principal of which may not be expended, i.e., endowment funds.

Object classification • A method of classifying expenditures according to that which is received for the expenditures, e.g., personal services, printing and stationery, travel, communications, food, fuel, utilities, repairs, and equipment. Often, current operating expenditures are classified in the accounts by object within function, e.g., instruction (history) — salaries, or plant maintenance — fuel.

Plant • Land, buildings, and equipment used primarily for instructional, research, and administrative purposes, and for supporting service operations. The term includes classroom buildings, laboratories, lecture halls, libraries, administration buildings, conference centers, gymnasiums, field houses, recreation fields, heating and power plants, warehouses, shops, garages, laboratory apparatus and equipment, furniture, furnishings, equipment, office machines, motor vehicles and machinery of the physical plant department, livestock, and library books.

Plant funds • Funds designated or expended for the acquisition of physical property used for institutional purposes.

Pooled investments • Fund assets pooled or consolidated for investment purposes.

Prepaid expenses • Those portions of insurance, rent, and other expenses paid during a given fiscal year which apply to succeeding years.

Principal of funds • See *Fund balance.*

Prorating • The allocating of parts of an expenditure to two or more different accounts in proportion to the benefits received by the functions or activities of which the accounts are a part; for example, the prorating of insurance expense between regular and summer session.

Public services • The activities pertaining to institutes, workshops, and other programs and facilities which are not part of the school's continuing instructional program, but are designated primarily to serve the public.

Purchase order • A written request to a vendor to provide material or services at a price set forth in the order.

Quasi-endowment funds • Funds which the Governing Board of the school, rather than a donor or outside agency, has determined are to be retained and invested. Such funds are administered as if they were endowments. The Governing Board has the right to decide at any time to expend the principal of such funds.

Receipts • Generally, cash received. In institutional accounting it refers primarily to additions to the balances of the funds in all fund groups except the current funds group, where the term revenues is used.

Renewals and replacement funds • A class of plant funds, consisting of cash or other expendable assets, to be used for the renewal and replacement of institutional plant assets.

Requisition • A written request, usually from one department to the purchasing or business officer, for specified articles or services.

Restricted current funds • See *Current restricted funds.*

Restricted funds • Funds restricted by the donor as to use. Such funds are to be contrasted with funds over which the school has complete control and freedom as to use.

Retirement of indebtedness funds • A class of plant funds to be used to meet debt service charges and the retirement of indebtedness on institutional plant assets.

Revenues • Revenue results from the rendering of services, and is measured by (1) the charge made therefor to students, sponsors, and others; (2)

gains from the sale or exchange of current fund assets; (3) interest and dividends earned on investments; (4) sale of goods; and (5) other increases arising from the support of current fund operations: for example, gifts, gifts applied, and appropriations.

Sponsored research • The activities pertaining to separately budgeted research, including research financed by outside agencies, foundations, and governmental units, also referred to as organized research.

Student aid • The income and expenditures that are specifically designated for scholarships, fellowships, prizes, and other similar purposes.

Student support services • Activities which are operated primarily to furnish a service to students, although available to the faculty, staff, and certain members of the public. Examples are: residence halls, dining halls, student placement and counseling, infirmary, student store, snack bar, etc.

Term endowment funds • Funds which outside donors have stipulated are to be released from inviolability to permit all or parts of them to be expended upon the happening of a particular event or the passage of a stated period of time.

Transfers • An authorization by the Governing Board of a specific change in the use of funds, and the moving of the assets, liabilities, and balances from one fund group to another, e.g., unallocated current funds transferred to plant or loan funds.

Trial balance • A listing of all accounts and their balances for the purpose of determining whether total debits equal total credits. It is normally used to verify the accuracy of posting and as the first step in the preparation of financial statements and reports.

Unallocated balance of current unrestricted funds • That part of the balance of current unrestricted funds which has not been set aside for any specific purpose. It is the free and unassigned balance of current unrestricted funds available for allocation to future operating purposes or for other uses as designated by the Governing Board. It is synonymous with the term "surplus" in commercial accounting, which is inappropriate in institutional accounting.

Unexpended plant funds • Funds designated for the acquisition or construction of, repairs to, renewals of, improvements to, and debt service on physical properties.

Unrestricted current funds • See *Current unrestricted funds.*

Working capital • The portion of the balance of current unrestricted funds set aside to recognize the fact that a portion of current unrestricted funds has been utilized to finance receivables, inventories, and similar items, and thus is not available for expenditures.

APPENDIX

ALTERNATE CHART OF ACCOUNTS

This expanded chart of accounts is based on a seven-digit code structure. Although the account classifications are similar to those presented in Chapter Two, the enlarged numbering scheme provides greater flexibility. It is particularly adaptable to data processing equipment. The major difference between this and the simpler chart is the use of: (1) a discrete first digit to identify the fund to which the account belongs, and (2) a function-object coding scheme which identifies both the department incurring the expenditure and the nature of the expenditure itself.

Presented immediately below is a table which portrays the chart of accounts structure. In it, the first digit identifies the fund group of the account; the second digit identifies the general type of account, e.g., asset, liability, fund balance, etc.; the third digit specifies the particular account classification within each general type of account, e.g., type of asset, source of revenue, etc.; the fourth and fifth digits provide a more detailed subclassification and identification of accounts, e.g., a particular cash account within the assets of the current unrestricted fund, the particular fund within a fund group, etc.; the sixth and seventh digits of the code are used with expenditure accounts to identify the object of the expenditure. Thus, for expenditures, the first three digits indicate the general functional classifications (instruction, student support services, general administration, etc.); the fourth and fifth digits specify the specific functional department or activity (English, Science, Headmaster, etc.); and the sixth and seventh digits indicate the nature or object of the expenditure (salary, employee benefits, materials and supplies, etc.). A list of the recommended object accounts and their numbers is presented at the end of the model chart of accounts.

CHART OF ACCOUNTS — STRUCTURE

First digit — fund classification:

1 Current — unrestricted
2 Current — restricted
3 Plant — unexpended
4 Plant — investment in plant
5 Endowment and similar
6 Loan
7 Annuity and life income
8 Agency

Second digit — type of account:

1 Asset
2 Liability
3 Fund balance
4 Revenue
5 Expenditure
6 Transfers

Third digit — account classification:

	Assets	Liabilities	Fund balance
1	Cash	Notes payable	Fund balance
2	Investments	Accounts payable and accrued expenses	"
3	Accounts and notes receivable	Mortgages payable	"
4	Inventory	Deposits and advance payments	"
5	Prepaid expenses	Agency funds	"
6	Land, buildings and equipment	Other	"
7	Due from (to) other funds	—	"
8	Other	—	"
9		—	"

	Revenues	Expenditures	Transfers
1	Student tuition and fees	Instruction	To/from current unrestricted fund
2	Gifts	Student support services	To/from current restricted funds
3	Endowment income	Student activities	To/from unexpended plant funds
4	Student support services	Summer school and other programs	To/from investment in plant
5	Summer school and other programs	Operation and maintenance of physical plant	To/from endowment and similar funds
6	Other sources	General administration	To/from loan funds
7	—	General institutional	—
8	—	—	—
9	Student aid	Student aid	—

Fourth and fifth digits — detailed subclassification of the third-digit account

Sixth and seventh digit — object of expenditure classification — 00 in all other accounts

CHART OF ACCOUNTS

CURRENT FUNDS — UNRESTRICTED

Assets

Account No.	*Description*
111-00-00	Cash — detail as needed; for example:
111-10-00	Cash — general
111-11-00	Cash — payroll
111-12-00	Petty cash fund
112-00-00	Investments — short term
113-00-00	Accounts and notes receivable — detail as needed; for example:
113-10-00	Accounts receivable — students
113-20-00	Accounts receivable — faculty and staff
113-30-00	Notes receivable
113-90-00	Allowance for doubtful accounts (credit balance)
114-00-00	Inventories (fourth and fifth digits may be used to identify specific inventory accounts)
115-00-00	Prepaid expenses and deferred charges
117-00-00	Due from (to) other funds — detail as needed; for example:
117-10-00	Due from (to) current restricted funds
117-20-00	Due from (to) plant funds
117-30-00	Due from (to) endowment and similar funds
118-00-00	Other assets

Liabilities and Fund Balances

121-00-00	Notes payable
122-00-00	Accounts payable and accrued expenses — detail as needed; for example:
122-10-00	Trade accounts payable
122-20-00	Taxes payable (FICA, unemployment compensation, etc.)
122-30-00	Employees taxes withheld (Federal income tax, state taxes, etc.)
122-70-00	Accrued salaries and wages
124-00-00	Deposits and advance payments
125-00-00	Agency Funds — detail as needed; for example:
125-10-00	Student allowances
125-20-00	Student charities
125-30-00	Student organizations
	Fund balances:
130-00-00	Fund balance — unallocated
131-00-00	Fund balance — allocated for computer survey
132-00-00	Fund balance — allocated for faculty development
139-00-00	Fund balance — gifts

Revenue

Account No.	*Description*
141-00-00	Student tuition and fees — detail as needed; for example:
141-10-00	Tuition
141-20-00	Application fees
141-30-00	Registration fees
141-40-00	Fines and assessments
141-50-00	Student activities
141-90-00	Other fees
142-00-00	Gifts — separate accounts as needed for separate fund drives, etc.:
142-10-00	Unrestricted
142-20-00	Restricted
143-00-00	Endowment income:
143-10-00	Unrestricted
143-20-00	Restricted
143-30-00	Income from funds held in trust by others
144-00-00	Student support services — detail as needed; for example:
144-10-00	Room — if separate charges are made in addition to tuition
144-20-00	Board — if separate charges are made in addition to tuition
144-30-00	Health services
144-40-00	Student store
144-50-00	Snack bar
144-60-00	Student transportation
144-90-00	Other
145-00-00	Summer school and other programs — detail as needed; for example:
145-10-00	Summer school
145-20-00	Conferences and workshops
145-30-00	Sponsored research
145-40-00	Public services (adult education, community services, etc.)
145-50-00	Summer camps
146-00-00	Other sources — detail as needed; for example:
146-10-00	Governmental appropriations
146-20-00	Estimated value of contributed services
146-30-00	Income on temporary investments of current funds
146-40-00	Faculty housing
149-00-00	Student aid:
149-10-00	Restricted gifts
149-20-00	Restricted endowment income
149-90-00	Other

Expenditures

Account No.	
151-00-xx*	Instruction:
151-10-xx	English
151-11-xx	Mathematics
151-12-xx	Sciences
151-13-xx	Foreign languages
151-14-xx	Art
151-15-xx	Music
151-30-xx	Chapel
151-40-xx	Library
151-50-xx	Athletics
152-00-xx	Student support services:
152-10-xx	Residence halls (fifth digits may be used to identify specific buildings)
152-20-xx	Food service
152-30-xx	Health service
152-40-xx	Student store
152-50-xx	Snack bar
152-60-xx	Student transportation
152-70-xx	Student guidance and counselling
153-00-xx	Student activities — detail as needed; for example:
153-10-xx	Newspaper
153-20-xx	Dramatics
153-30-xx	Band
153-40-xx	Orchestra
153-50-xx	Entertainment
153-60-xx	Student clubs (fifth digit may be used to identify specific clubs)
154-00-xx	Summer school and other programs — detail as needed; for example:
154-10-xx	Summer school
154-20-xx	Conferences and workshops (fifth digit may be used to identify specific programs)
154-30-xx	Sponsored research (fifth digit may be used to identify specific projects)
154-40-xx	Public services (adult education, community service, etc.)
154-50-xx	Summer camps
155-00-xx	Operation and maintenance of physical plant:

*xx designates object of expenditure.

Expenditures, *continued*

Account No.	*Description*
155-10-xx	Buildings (fifth digit may be used to identify specific buildings)
155-20-xx	Grounds
155-30-xx	Equipment (fifth digit may be used to identify specific types of equipment)
156-00-xx	General administration:
156-10-xx	Governing board
156-20-xx	Headmaster's office
156-30-xx	Dean's office
156-40-xx	Admissions office
156-50-xx	Business office
156-60-xx	Registrar
156-70-xx	Alumni office
156-80-xx	Fund raising and development
157-00-00	General institutional — to the extent that expenditures are not charged or allocated directly to the various functional activities or departments, they may be accumulated and reported here, for example:
157-10-00	Commencement and convocation
157-20-00	Employee benefits — detail as needed; for example:
157-21-00	FICA tax
157-22-00	Unemployment insurance and workmen's compensation
157-23-00	Medical and hospitalization insurance
157-24-00	Retirement
157-25-00	Dependent's tuition
157-26-00	Housing and meal allowances
157-30-00	Insurance
157-40-00	Property taxes
157-50-00	Interest
159-00-00	Student aid:
159-10-00	Scholarships
159-20-00	Scholarships — faculty children
159-30-00	Prizes and awards
	Transfers
163-00-00	Transfer to (from) plant funds
165-00-00	Transfer to (from) endowment and similar funds
	CURRENT FUNDS — RESTRICTED
	Assets
211-00-00	Cash
212-00-00	Investments

Account No.	Description
	Description
213-00-00	Accounts receivable
217-00-00	Due from (to) other funds
	Liabilities and Fund Balances
222-00-00	Accounts payable
230-00-00	Fund balances — detail as needed; for example:
231-00-00	Fund for scholarships — gifts
232-00-00	Fund for scholarships — endowment income
233-00-00	Fund for faculty summer study
234-00-00	Provision for endowment income stabilization
235-00-00	Undistributed pooled endowment income
	PLANT FUNDS — UNEXPENDED
	Assets
311-00-00	Cash
312-00-00	Investments
316-50-00	Construction in progress
317-00-00	Due from (to) other funds — detail as needed
	Liabilities and Fund Balances
321-00-00	Notes payable
322-00-00	Accounts payable
331-00-00	Fund balances — detail as needed; for example:
331-10-00	Capital additions fund
331-20-00	Reserve for renewals and replacements
	Transfers
360-00-00	Transfers to (from) other funds — detail as needed
	PLANT FUNDS — INVESTMENT IN PLANT
	Assets
416-10-00	Land
416-20-00	Buildings
416-30-00	Improvements other than buildings
416-40-00	Equipment
	Liabilities and Fund Balances
	Description
421-00-00	Notes payable
422-00-00	Accounts payable
423-00-00	Mortgages payable
431-00-00	Net investment in plant

ENDOWMENT AND SIMILAR FUNDS

Assets

511-00-00	Cash — detail as needed; for example:
511-10-00	Cash — savings account No. 1
511-20-00	Cash — savings account No. 2
512-00-00	Investments (pooled) — detail as needed; for example:
512-10-00	Bonds
512-20-00	Preferred stocks
512-30-00	Common stocks
512-40-00	Mortgage notes
512-50-00	Real estate
512-60-00	Accumulated depreciation — real estate (credit balance)
517-00-00	Due from (to) other funds

Liabilities and Fund Balances

522-00-00	Payables
531-00-00	Fund balances — detail as needed; for example:
531-10-00	Balances of endowment funds
531-30-00	Balances of quasi-endowment funds
531-50-00	Balances of term endowment funds
531-99-00	Undistributed gains and losses on sale of investments

Transfers

560-00-00	Transfers to (from) other funds

EXPENDITURE OBJECTS

The use of the expenditure objects will depend on the ability and desire of the school to report various levels of detail within each function. A school may use just the seven broad object classifications or the detailed accounts within each classification.

Object No.	*Description*
10	Personal services:
11	Administrative salaries
12	Faculty salaries
13	Secretarial and clerical salaries
14	Maintenance and janitorial salaries
15	Student assistants' salaries
16	Estimated value of contributed services
17	Token fees and honoraria (trustees, speakers, etc.)

Object No.	*Description*
20	Employee benefits:
21	FICA tax
22	Unemployment insurance
23	Workmen's compensation
24	Medical and hospitalization insurance
25	Retirement
26	Dependents' tuition
27	Housing allowance
28	Meal allowance
30	Materials and supplies:
31	Office
32	Instructional
33	Athletic
34	Laboratory
35	Maintenance
36	Provisions (raw food)
37	Dining hall (linens, tableware, kitchen supplies)
38	Residences (linen, blankets)
40	Information and communications:
41	Subscriptions, publications and reports
42	Membership dues
43	Telephone and telegraph
44	Printing and binding
45	Postage and shipping
46	Advertising
50	Maintenance and repairs:
51	Outside repair services
52	Water
53	Light and power
54	Heat
60	Miscellaneous:
61	Travel
62	Entertainment
63	Insurance
64	Interest
65	Equipment rentals
66	Professional fees (legal, audit, consultants)

Object No.	*Description*
70	Capital outlay:
71	Land
72	Buildings
73	Improvements other than buildings
74	Equipment

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A SUCCINCT AND LUCID EXPLANATION OF DEBITS AND CREDITS

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WE begin with a "T," which, as a convenient mnemonic device, we may consider to stand for "tally." On the left side of the "T," assuming of course that we are standing in front of the "T," and not behind it, we place our debits. Debits, as everyone knows, are defined as those figures we place on the left side of the "T." Accounting procedures have a kind of pristine beauty in their logic to which the layman is often curiously insensitive.

On the right side of the "T," assuming, of course, that we are standing in front of the "T," and not behind it, we place our credits. A credit, by definition, is anything that we place on the right side of the "T," or, to look at it another way, it is anything that is the precise antithesis of a debit. If you make the vertical line on the "T" heavy and black, you will never confuse credits and debits.

Now we come to the question of what to write on top of the "T." Actually, one has great freedom in this matter; one can write almost any damn thing he pleases on top of the "T," and most experienced business managers do. One also has great freedom in the number of "T's" he writes. One should have a "T" for paperclips, a "T" for telephone — which is particularly appropriate, and, of course, as one headmaster sadly forgot, a "T" for secretaries' hosiery ripped and torn during working hours. As headmasters and headmistresses with business acumen, we need not concern ourselves with the office circumstances that brought about the ripping and tearing of the secretaries' undergarments. We may justly consider that we have handled the situation with efficiency and dispatch if we promptly note it on a "T." It may be stated as a general and universally recognized truth that an administrator's success in fiscal matters is in direct proportion to the number of "T's" he contrives to fill out in a month's time.

At the end of the month, one makes a giant "T," and one should be sure that one's school has a large white wall or the side of a major building handy for this "T." At the top of this "T" write "Cash." Now "cash" in this sense has nothing to do with what one carries in one's wallet or pocketbook. This "cash" is precisely the same "cash" that the efficient administrator never writes checks to. With this point clearly in mind, one enters on the credit side of the cash "T" all the figures that formerly appeared on the debit side of all the little "T's" one has spent the past month in making. It may be helpful to consider

the giant "T" as a mirror held up before all the little "T's" so that right becomes left and left becomes right with the pristine beauty of accounting procedures mentioned earlier. As one transfers these figures, one must remember to take whatever number was originally on one side of a small "T" and write it on the other side of the small "T." This procedure makes everything balance out in a very simple and direct way and thus serves to give the administrator confidence in his abilities. It is a great thrill to note that after copying what was on the left side of the "T" onto the right side of the "T," one has the same figures on both sides of the "T." In recognition of this signal achievement, one draws two lines at the bottom of the balanced "T" in question, which actually, of course, transforms the "T" into a capital "I" that is underlined once.

Let me now turn to the giant cash "T," on the right side of which are all the bills one has paid. They appear on the credit side on the theory that it is certainly a credit to pay one's bills, but it is not particularly to one's credit to send them out. The money one has received, therefore, that once went on the right side of the little "T's" — one assumes this, although one can no longer tell, because by now both sides of all the little "Ts" have been filled out identically so that it is impossible to tell which sides were filled out first — this money now goes on the debit side of the giant cash "T." Thus, in establishing money paid out as a credit, and money paid in as a debit, the accounting profession puts an institution's entire fiscal picture in a moral framework, possibly derived from the concept that it is more blessed to give than to receive.

One now comes to the moment to add up all the numbers on each side of the giant cash "T." At this point, the administrator might be wise to consider renting an IBM 1130 computer for $20,000 a year. In any case, both columns must be added up and they must both add up to the same sum. But they won't. They just never do. And at this point, to speak baldly, one must cheat. The procedure is as follows: One subtracts the smaller column sum from the larger column sum. One then makes a brand new giant cash "T," copying down all the numbers that appeared on the first giant cash "T" except the totals. One then adds to the column that had the smaller total the new figure reached by subtraction. Immediately, then, one burns the first giant cash "T," although this may be difficult if it was put on the side of a building. Still, one must destroy the evidence that one's first cash "T" didn't balance. If the debit side of the "T" was the larger, one labels the figure reached by subtraction a "surplus" and places it on the credit side of the ledger with all the money that's been paid out. If, on the other hand, the credit side of the "T" was the larger, one labels the figure reached by subtraction a "deficit" and places it on the debit side of the ledger with all the money that's been paid in. In either case, both sides will balance. The vast majority of people, looking at your books,

will see only that both sides balance, and will therefore infer that you are neither losing money nor making a profit unseemly for a non-profit institution. This is the true genius of double-entry bookkeeping: It doesn't matter whether you win or lose, so long as you have your accounting procedures down to a "T."

COOPERATING SCHOOLS

Allen-Stevenson School
Asheville School
Augusta Preparatory School
Baldwin School
Berkeley Institute
Browne & Nichols School
Cardigan Mountain School
Cate School
Church Schools in Diocese of Virginia:
- Christchurch
- St. Agnes
- St. Anne's
- St. Catherine's
- St. Christopher's
- St. Margaret's
- St. Stephens

College Preparatory School
Collegiate School (N.Y.)
Columbia School of Rochester
Concord Academy
Convent of the Sacred Heart
Culver Military Academy
Darrow School
Deerfield Academy
Dublin School
Ethical Culture Schools
Foxhollow School
Francis W. Parker School
George School
Gunnery
Miss Hall's School
Hockaday School
Howard School for Girls
Kingswood School
Lake Forest Academy
Lawrenceville School
Lenox School
Low-Heywood School
Manlius School
McCallie School
Midland School
Millbrook School
Milton Academy
Nashoba Country Day School
New Canaan Country Day School
New Hampton School
Northfield & Mount Hermon Schools
North Shore Country Day School
Pebble Hill School
Pembroke Country Day School
Phillips Exeter Academy
Pine Crest School
Polytechnic School
Pomfret School
Princeton Day School
Proctor Academy
Putney School
School of the Holy Child
St. Anne's School
St. Margaret's School
St. Mark's School of Texas
St. Paul's School (L.I.)
St. Paul's School (N.H.)
Shattuck School
Stoneleigh-Burnham School
Storm King School
Taft School
United Nations School
Walnut Hill School